Brascan LIMITED

ANNUAL REPORT NINETEEN SEVENTY-ONE

Brascan LIMITED

25 King Street West, Toronto 1, Canada

COMPARATIVE HIGHLIGHTS (Dollar amounts expressed in U.S. currency)

	1971	1970
	$ millions	$ millions
Property, plant and equipment at cost	1,108.8	1,030.0
Long-term debt	46.4	56.8
Shareholders' equity	742.4	681.9
Electric operating revenues	425.0	369.3
Capital expenditures	83.6	77.9
Net income	83.8	66.5
Total cash dividends	23.2	21.1
Ordinary shares outstanding (average)	23,285,832	23,285,407
Book value per ordinary share—December 31	$31.88	$29.28
Net income per ordinary share	$ 3.60	$ 2.86
Cash dividends declared per ordinary share	$ 1.00	$ 1.00
Stock dividend declared per ordinary share		10%
Kilowatt-hours sold—millions	20,310	17,919

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Brascan LIMITED

DIRECTORS

HERMANN J. ABS/*Frankfurt on Main*
Chairman, Deutsche Bank AG

*J. H. A'COURT/*Toronto*
VICE-PRESIDENT, FINANCE

PIERRE ANSIAUX/*Brussels*
Member of the Bar of the Supreme Court of Belgium

A. T. A. ANTUNES/*Rio de Janeiro*
President, Indústria e Comércio de Minérios S.A.

THIERRY BARBEY/*Geneva*
Managing Partner, Lombard, Odier & Cie

*HENRY BORDEN/*Toronto*
Director and member of Executive Committee, Bell Canada

PAUL G. DESMARAIS/*Montreal*
Chairman, Power Corporation of Canada, Limited

JOHN F. GALLAGHER/*Chicago*
Vice-President, International Operations, Sears, Roebuck and Co.

ANTONIO GALLOTTI/*Rio de Janeiro*
VICE-PRESIDENT; President,
Light—Serviços de Eletricidade S.A.

J. PETER GRACE/*New York*
Chairman, W. R. Grace & Co.

*LEWIS B. HARDER/*New York*
Chairman, International Mining Corporation

N. E. HARDY/*London, Ontario*
President, John Labatt Limited

*W. C. HARRIS/*Toronto*
Chairman, Harris & Partners Limited

LOUIS A.-LAPOINTE/*Montreal*
Chairman and President, Miron Company Ltd.

A. J. MacINTOSH/*Toronto*
Partner, Blake, Cassels & Graydon

*PAUL E. MANHEIM/*New York*
Limited Partner, Lehman Brothers

WILLIAM J. MANNING/*New York*
Partner, Simpson Thacher & Bartlett

*BEVERLEY MATTHEWS/*Toronto*
Partner, McCarthy & McCarthy

*NEIL J. McKINNON/*Toronto*
Chairman, Canadian Imperial Bank of Commerce

WILLIAM G. MEESE/*Detroit*
President and Chief Executive Officer, The Detroit Edison Company

*J. H. MOORE/*London, Ontario*
PRESIDENT

JOHN G. PHILLIMORE/*London*
Managing Director, Baring Brothers & Co., Limited

HONORARY DIRECTOR

W. A. G. KELLEY/*Toronto*

*Member of the Executive Committee

OFFICERS

J. H. MOORE/*President*
ANTONIO GALLOTTI/*Vice-President*
J. H. A'COURT/*Vice-President, Finance*
D. C. EYNON/*Vice-President*
C. E. SAWYER/*Vice-President*
E. A. C. FREEMAN-ATTWOOD/*Assistant Vice-President*
L. A. ALLEN/*Secretary*
R. R. SUTHERLAND/*Comptroller*

LIGHT—SERVIÇOS DE ELETRICIDADE S.A.

DIRECTORS

ANTONIO GALLOTTI/*President*

J. J. MARQUES FILHO/*Vice-President*

J. S. FREITAS/*Vice-President*

RUY BESSONE P. CORRÊA

W. J. CROCKER

JOSÉ RUBEM FONSECA

ALEXANDRE H. LEAL

RAPHAEL DE ALMEIDA MAGALHÃES

D. W. MINION

J. S. MONTEIRO

ALBERTO DO AMARAL OSÓRIO

A. A. DE AZEVEDO SODRÉ

R. E. SPENCE

OTHER SUBSIDIARY COMPANIES IN BRAZIL

BRASNAC—PARTICIPAÇÕES E INVESTIMENTOS LTDA.

EMPRÊSA TÉCNICA DE ORGANIZAÇÃO E PARTICIPAÇÕES S.A.

ORGANIZAÇÃO E EMPREENDIMENTOS GERAIS S.A.

BANCO BRASCAN DE INVESTIMENTO S.A.
(a subsidiary of Emprêsa Técnica de Organização e Participações S.A.)

ANTONIO GALLOTTI/*President*

Transfer Agents

National Trust Company, Limited
Toronto, Montreal and Vancouver

First National City Bank *New York*

Registrars

Canadian Imperial Bank of Commerce
Toronto, Montreal and Vancouver

Bankers Trust Company *New York*

Associated Companies

Canadian-Brazilian Services Limited *Toronto*

American-Brazilian Suppliers, Inc. *New York*

Annual Meeting

The annual meeting of the shareholders will be held at the Royal York Hotel, Toronto on Tuesday, June 6, 1972 at 11 o'clock in the morning.

J. H. Moore (left), President of Brascan Limited and Antonio Gallotti, Vice-President of Brascan and President of Light S.A.

The Directors are pleased to inform shareholders in this 59th annual report that the Company's progress and satisfactory growth rate of recent years continued throughout 1971.

In its diversified activities in Brazil and Canada the Company showed a gain in net income from $66.5 million* ($2.86 per ordinary share) in 1970 to $83.8 million ($3.60 per ordinary share) in 1971. The increase was primarily attributable to higher earnings in the electric utility, part of which were of a non-recurring nature, and in the Brazilian investment operations. Both sectors benefited substantially from increased levels of business activity. The non-recurring factors affecting the results, which are analyzed in the Financial Review appearing later in this report, included approximately 35 cents per ordinary share attributable to the lowering of the income tax rate applicable to electric utility income.

Electric Operations in Brazil

The rate of growth in the Brazilian economy achieved new levels during the year. Gross Domestic Product increased by 11.3 per cent during 1971, compared with 9.5 per cent in 1970. The program of inflation restraint is bringing the rise in living costs under control, while the expansion of the economy is encouraged. The cost of living rose by 18.1 per cent in 1971, compared with 21 per cent the previous year.

With growing international recognition of Brazil's record of development during recent years, world-wide interest in investment in the country is on the rise. Industrial production improved substantially during the year, as did exports, and the balance of payments position at the end of the year was favourable.

A number of new social and economic initiatives were undertaken by Brazil in 1971, among them programs to stimulate housing, improve rural living conditions, particularly in the North East, encourage the development of small businesses, expand educational facilities and provide incentives to exporters.

The economic progress made in the concession area served by Light S.A. was reflected in greater sales of electric power, which during 1971 were 20.3 billion kilowatt hours, 13.3 per cent higher than the 17.9 billion kilowatt hours sold the previous year.

At the end of 1971 Light had 3,273,000 customers, an advance of 7.1 per cent over the 3,056,000 at the end of 1970. The program of expansion and improvement of Light's transmission and distribution facilities continued, with $83.6 million expended during the year. For the years 1972 to 1976 inclusive it is estimated that such expenditures will amount to $654 million. Up to approximately half of the funds to be invested in this program will be provided from retained earnings and depreciation, and the balance from external borrowing and the sale of additional equity shares of Light in Brazil.

As noted in Interim Reports to shareholders in 1971, reversion moneys collected through rates will not be available automatically in future to help finance Light system expansion. It is anticipated, however, that some part of the pool of reversion funds will be loaned to Light.

During the year an extensive administrative reorganization was undertaken in Light, designed to provide better service to the customer. This is reported on in more detail in the section on Light S.A.

Canadian Investments

No new major Canadian investments were made during 1971. Brascan's chief investment in Canada continues to be John Labatt Limited, a leading producer of beer, food and allied products.

Early in the year your Company's interest in Hudson's Bay Company was increased slightly, from 6 to 6.7 per cent of the common shares, and the second instalment of Can. $8 million was paid on the purchase of Elf (Canada) shares.

As reported, your Company, through Mikas Oil Co. Ltd., entered into agreements to undertake a study of the feasibility of developing the Sukunka coal deposit in British Columbia. If this project is proceeded with, Mikas has options to purchase up to a 50 per cent interest in it.

During the year your Company made plans for establishing an international trading company, and toward the end of the year a small firm, Aegis Marketing International Ltd., was acquired to become the nucleus of an international trading organization.

Non-Utility Investment in Brazil

As previously reported, Banco Brascan in July acquired a majority interest in a consumer finance company, Crefinan.

During the year under review your Company sold its 42 per cent interest in Farloc do Brasil S.A., a manufacturer of automotive replacement parts, as well as its 7 per cent interest in Banco de Investimento do Brasil S.A.

Construction of the Gávea Hotel, which the Company will build in Rio de Janeiro in cooperation with Intercontinental Hotels, is expected to begin this summer.

While the food processing firm, Fábricas Peixe, showed a further loss, substantial progress was made during the year in raising production and quality standards, in plant rationalization, and in improved marketing methods. These are further steps in the program to place this company on a profitable footing.

During the year the Company established a non-profit research organization, Brascan Nordeste—Sociedade Civil de Desenvolvimento e Pesquisas, at a cost of $1.8 million, to assist in the development of agriculture and the expansion of employment opportunities in the North East of Brazil. Fábricas Peixe has a plant facility in the North East

*Dollar figures throughout this report are U.S. dollars except where indicated otherwise.

which is already doing development work in the area. Projects undertaken by Brascan Nordeste, to be decided on in consultation with community leaders, are expected to have long-range effects in creating new jobs and making a contribution toward improving living standards in this traditionally underdeveloped area of the country.

Canadian Tax Legislation

The long-awaited new Canadian tax legislation was introduced by the Government in June 1971 and came into force on January 1, 1972. As indicated in earlier reports to shareholders, the new tax system is not expected to have any material effect on the Company's net income. A definitive assessment of the prospective impact must, however, await publication of the regulations required under the new law, as well as the presentation of certain amendments to the law which are expected later this year. The amendments relate particularly to the provisions of the new law dealing with what is known as foreign accrual property income (i.e. non-business income) of foreign affiliates, which it is proposed to tax for the first time after 1972.

60th Anniversary

Although this is a report of the Company's operations for 1971, it will be received by shareholders in 1972, during which Brascan will observe its 60th anniversary. It was on July 12, 1912 that Brascan, under its original name of Brazilian Traction, Light and Power Company, Limited, was formed to acquire the shares of several Canadian utility companies then operating in Brazil. Through its sixty years it has been your Company's privilege to serve those living in its concession area and to make a major contribution toward the economic development of the South Central region of the country.

The spirit of the Company's long association with Brazil and Brazilians can perhaps best be summed up in a motto which has been used by Light S.A.:

"A serviço do progresso do Brasil".

Management and Staff

The progress Brascan has made during the year is due in large measure to the industry and imagination of its management and staff, both in Brazil and in Canada. On behalf of the Directors I want to offer to management and employees our appreciation for the contribution they have made to the Company's success during the year.

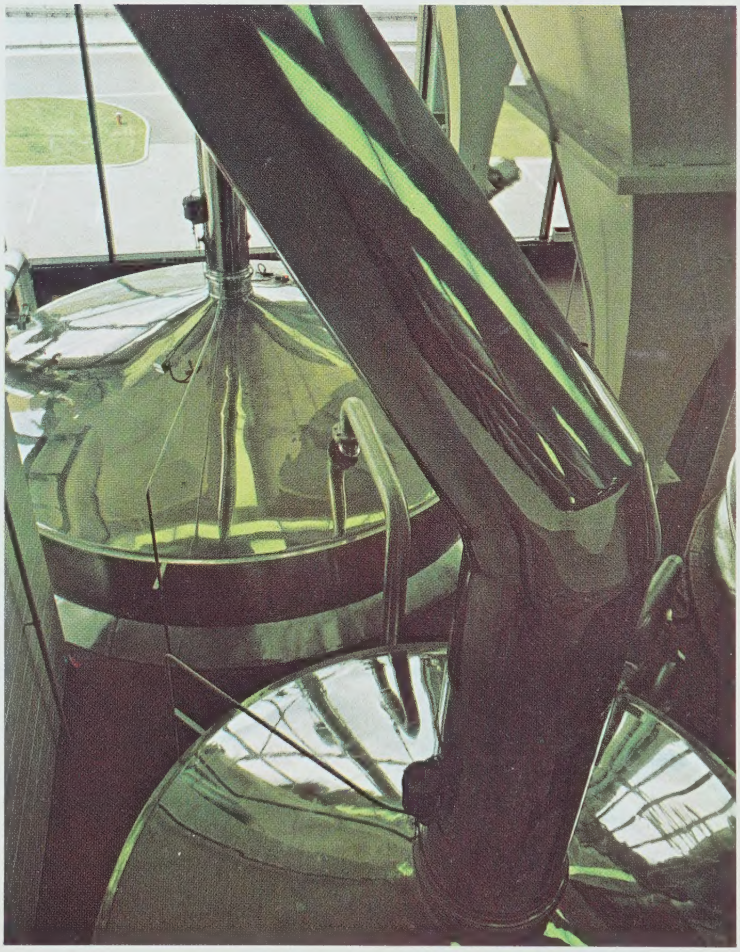
On behalf of the
Board of Directors

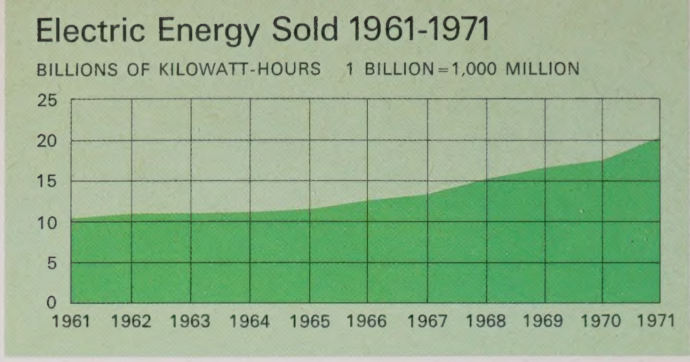
J. H. Moore
President

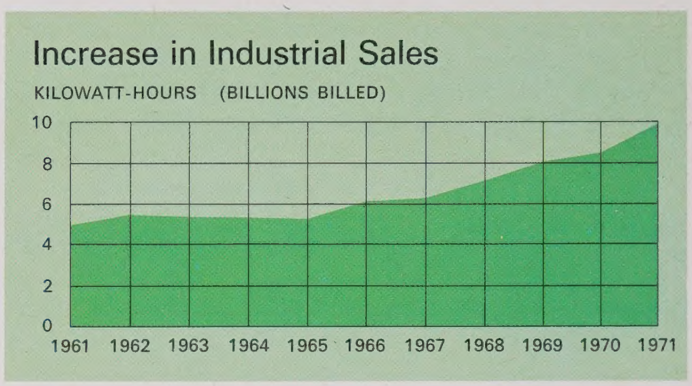
April 4, 1972

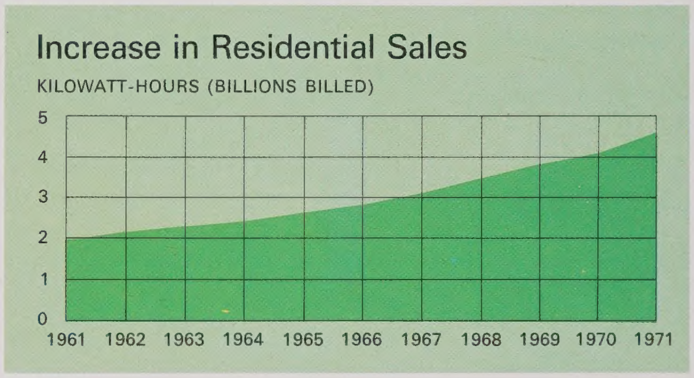
Top: *São Paulo by night. The world's fastest growing city (greater São Paulo is now estimated at nine million people), it is emerging as the commercial and industrial centre of South America.*

Bottom: *A view of the brewhouse of Labatt's Metropolitan Brewery, Toronto.*









In 1971, Light S.A. sold in excess of 20 billion kilowatt hours of electricity, over two billion more than in the preceding year. Industrial consumption represented 49.1 per cent of total sales, an increase of 16.1 per cent over the previous year.

Major changes were made in the electric regulatory system by Law No. 5655 approved in May 1971. Income taxes payable by electric utilities in Brazil in the four-year period 1972 to 1976 on profits earned in the 1971-1975 period were reduced from 17 to 6 per cent of taxable profits. Such taxes paid after January 1, 1972 will no longer be recoverable in electric rates. The law also raises the limit of remuneration to 12 per cent, at the discretion of the competent authority. For companies operating in more developed areas, the Government authorized 12 per cent remuneration as of January 1, 1972.

Reversion funds, formerly applied to expansion and improvements in Light's plant and facilities, beginning January 1, 1972 will be paid into a general reversion fund pool, to be administered by Eletrobrás, the federal power agency, which may, in its judgment, grant loans to concessionary companies. Interest on reversion resources reinvested in electric plant up to December 31, 1971 has been raised from 6 per cent to 10 per cent per annum.

These changes are intended to strengthen the economic structure of the power system as a whole, but at the same time they make it impossible for individual companies to invest the resources created through their reversion quotas in expanding their own facilities.

Light's investment in expansion and improvements totalled $83,613,000 in 1971. In line with the Company's policy in previous years, this expenditure was directed chiefly to the improvement and extension of the distribution system, which was enlarged by 11,687 miles of conductors (up 8.5 per cent), 88,746 poles (up 10.9 per cent) and 8,462 transformers (up 10.6 per cent), bringing the totals to 149,300 miles of conductors, 903,774 poles and 84,267 transformers. Total transformer capacity rose by 960,300 KVA (14 per cent) to 7,891,492 KVA.

Studies carried out by Light estimate that consumption within the system will show an annual rate of increase of 10 per cent during the period 1972 to 1976, reaching a total of 32.2 billion KWH by 1976, and 49 billion by 1981. To meet the demand of this expanding market, the Company will invest $1,453 million, of which $654 million will be expended in the period from 1972 to 1976 and $799 million from 1977 to 1981.

The Brazilian Government has decided on the construction of a reservoir on the upper Paraíba River, which will assure greater regularity in the supply of water to the Light's Rio system. The latest estimate of the cost is of the order of $88 million, to be divided between the Federal Government (24.5 per cent), the São Paulo State Government (24.5 per cent), the Rio de Janeiro State Government (10 per cent) and Light (41 per cent). This participation is to be considered as remunerable investment.

In December 1971, a plan for the administrative reform of the Company was approved, to be inaugurated in 1972. Under the new organizational structure the Executive Committee will be in charge of general direction, control and planning; customer service areas will be established to decentralize this activity further, and stimulate power consumption; regional financial sectors will be merged so as to offer better conditions for planning and control; and regional operations systems will be consolidated in order to continue to obtain an adequate supply of power at the lowest possible cost.

The Rio and São Paulo Regions, as well as Central Administration, have been eliminated. The Rio and São Paulo sectors in charge of finance, power supply, industrial relations, administrative services and material have been merged. Each unified sector is headed by an Assistant Director. Conversely, customer services in Rio and São Paulo will strengthen their regional character by subdividing into areas in charge of commercial services and direct supply of power to consumers. One Assistant Director in Rio and another in São Paulo are to coordinate the customer service areas under their supervision.

In January, 1971 the first issue of the Company's publication, "Jornal da Light" was distributed, with a monthly circulation of 27,500.

FINANCIAL REVIEW 1971

The consolidated financial statements of the Company and its subsidiaries for 1971, drawn up in the revised form adopted for the 1970 statements, appear on pages 5 to 12 below, together with the Auditors' Report thereon to the shareholders. Comparative analyses by currencies of income and of funds provided and used appear on pages 13 and 14, followed by the usual comparative summary of income and operating statistics for each of the years since 1965.

Comparative 1971 and 1970 statements of consolidated income and retained earnings and the related consolidated balance sheets were set out in condensed form in a letter to shareholders dated March 14, 1972. That advance presentation of the 1971 financial statements was made because it was planned to include the 1971 figures in the prospectus relating to a European bond issue which was then being negotiated for the purpose of raising funds to assist in financing the capital program of the Company's electric subsidiary in Brazil (Light). The issue in question had not been made to the date of this Report, but is expected to come out during the current month.

The financial statements are expressed in United States dollars, as has been the Company's custom and, unless otherwise indicated, all references to dollars in this Review are to thousands of United States dollars. Cruzeiro revenues and expenses were translated to dollars in 1971 at the average free market exchange rate for the year (Cr$5.30 to the dollar) except for depreciation, which was translated at the rates of exchange prevailing at the time of acquisition of the related assets. At Cr$5.30, the dollar value of the cruzeiro is 13.4% below its value at the 1970 earnings rate of Cr$4.59. During the calendar year 1971 the cruzeiro was devalued by 12.2%, from Cr$4.95 at the beginning of the year to a year-end rate of Cr$5.635 to the dollar.

In 1971 Brascan and its wholly-owned subsidiary Brazilian Light Limited received from Brazil all dollar amounts to which they were entitled under the legislation governing remittances from that country. The remittances received covered maturing interest and sinking

fund payments on inter-company debt of Light, maturing interest and principal under the Brazilian Government-guaranteed obligations covering the unpaid balance of the sale price of the telephone utilities, dividends from Light and dividends from one of the investment subsidiaries through which a portion of the telephone sale proceeds is being channelled back to Brazil for reinvestment. As noted in the Annual Report for 1970, only some 48% of Light dividends payable to the Company is currently remittable in dollars. The balance is paid in cruzeiros and, to the extent not required to help finance Light's capital needs, is allocated to the non-utility investment program.

As a result of the new tax legislation which came into force in Canada on January 1, 1972, Brazilian Light Limited became redundant and was dissolved as of the end of 1971. Its assets and liabilities were taken over by Brascan Limited.

Statement of Consolidated Income

Consolidated net income amounted in 1971 to $83,781 or $3.60 per share, an increase of 26% over the $66,506 ($2.86 per share) of 1970. By sectors consolidated net income was earned as follows:

	1971		1970	
	Amount	**$ per Share**	Amount	$ per Share
Electric utility income	**$66,304**	**$2.85**	$55,338	$2.38
Investment Income				
North America	**7,317**	**0.32**	6,502	0.28
Brazil	**11,497**	**0.49**	5,630	0.24
Other	**(1,337)**	**(0.06)**	(964)	(0.04)
Net income	**$83,781**	**$3.60**	$66,506	$2.86

Approximately 33% of total 1971 consolidated net income was realized in or converted into dollars, as indicated in the analysis on page 13.

Electric Utility Income

Electric sales reached 20.3 billion kilowatt hours in 1971, 13.3% higher than the 17.9 billion kilowatt hours sold in the previous year. The resulting operating revenues of $425,039 were 15% more than the $369,276 recorded in 1970, and covered the cost of service in full along with the small deficiency of earnings brought forward from the previous year.

The following summary of the principal components of the $55,763 increase in operating revenues illustrates the functioning of the service-at-cost system of rate regulation:

Recoverable increases in costs		
Purchased Power		$21,464
Fuel Oil		6,785
Corporate profits taxes paid		2,235
Depreciation		1,749
Reversion		1,878
Labour, supplies and other costs		16,011
		50,122
Increase in allowable remuneration		
Due to increase in rate base	$10,519	
Variation on translation into dollars	1,666	8,853
		58,975
Reduction in recovery of prior year's deficiency 1970	3,494	
1971	282	3,212
Increase in operating revenues		$55,763

Electric operating income, which is determined by deducting operating expenses (including taxes, depreciation and reversion) from the operating revenues (or sales) noted above, increased from $73,783 in 1970 to $88,765 in 1971. The $14,982 increase is attributable to the following:

Increase in allowable remuneration	$ 8,853
Reduction in prior year's deficiency recovered	3,212
	5,641
Increase in recovery of corporate profits taxes paid	2,235
Reduction in provision for corporate profit taxes	8,099
Increase (net) in other expenses not recoverable in rates	(993)
Increase in electric operating income	$14,982

The $8,099 (35 cents per ordinary share) reduction in the amount provided by the electric utility for corporate profits taxes is a non-recurring saving reflecting a reduction in the tax rate from 17% to 6% which will apply to the income of the four years 1971 to 1974. Corporate profits taxes are payable in the year following that in which the income is earned and, as from January 1, 1972, payments of such taxes will not be recoverable through electric rates. Thus the $2,235 increase which occurred in 1971 in the amount of corporate profits tax

payments recovered in operating revenues will have a negative counterpart in 1972. These two non-recurring items account for $10,334 of the $14,982 increase in electric operating income attained in 1971.

Net electric utility income, representing electric operating income less interest and the portion of Light's profit attributable to its minority shareholders, amounted to $66,304 in 1971, compared with $55,338 in 1970. Interest deducted includes interest on reversion funds collected in rates and reinvested in plant during the years 1965 to 1971. Commencing January 1, 1972 the rate of interest payable on those funds was increased from 6% to 10% per annum.

The tax changes and increase in reversion interest noted above will have a deflationary effect on the future growth of net electric utility income. This will be offset however by the fact that the maximum rate of return allowed on the rate base was increased, as from January 1, 1972, from 10% to 12% per annum. Light was authorized by the conceding authority to collect new rates, based on the 12% rate of return, commencing January 1, 1972. As indicated in previous reports Light's rate base is still provisional, pending completion of the work of the Commission charged with determination of its value.

Investment Income

Total investment income increased by 55% from $12,132 in 1970 to $18,814 in 1971, divided as follows:

	1971	1970	Increase
North America	**$ 7,317**	$ 6,502	$ 815
Brazil	**11,497**	5,630	5,867
	$18,814	$12,132	$ 6,682

The tables below indicate the principal components of the foregoing:

North America	**1971**	1970	Increase
Dividends			
John Labatt Limited	**$ 2,121**	$ 1,975	$ 146
Hudson's Bay Company	**447**	87	360
Other	**253**	352	(99)
Profit on sale of shares	**2,099**	(6)	2,105
Mikas Oil Co. Ltd. profit	**107**	(23)	130
Interest income	**2,290**	4,117	(1,827)
	$ 7,317	$ 6,502	$ 815

Brazil	**1971**	1970	Increase
Interest under telephone sale agreement	**$ 4,222**	$ 4,399	$ (177)
Income on short-term investments of electric subsidiary and parent	**3,500**	2,321	1,179
Investment subsidiaries			
Dividends	**179**	382	(203)
Income on short-term investments and loans	**3,055**	537	2,518
Profit on security trading	**6,665**	680	5,985
Profit on sale of other securities	**1,817**		1,817
Commissions	**1,424**	1,101	323
Expenses and income taxes	**(3,678)**	(1,790)	(1,888)
Investment write-down	**(1,700)**		(1,700)
Appropriation for agricultural research	**(1,887)**		(1,887)
	5,875	910	4,965
Provision for losses of unconsolidated subsidiaries	**(2,100)**	(2,000)	(100)
Total Brazil	**$11,497**	$ 5,630	$5,867

The $6,665 of profit on security trading in 1971 was abnormally high. It arose during the first seven months of the year when the principal index of value of securities traded on the Rio de Janeiro stock exchange increased almost 300%. By the year-end it had fallen off by about one-third from the July high.

Consolidated Balance Sheet

Shareholders' equity amounted at the end of 1971 to $742,444 ($31.88 per share) compared with $681,907 ($29.28 per share) at the end of 1970. It was invested in the following assets at net book values:

	1971	1970
Investments and other (chiefly current) assets in Canada	**$124,568**	$115,425
Obligations guaranteed by the Brazilian Government on sale of telephone utilities	**68,309**	71,542
Utility assets	**496,418**	453,479
Non-utility investments and other (chiefly current) assets in Brazil	**53,149**	41,461
	$742,444	$681,907

The 1971 increase ($60,537) in shareholders' equity is represented by the $83,781 of net income for the year less the usual preference dividends and four ordinary dividends of 25 cents each declared at quarterly intervals.

Working capital increased in 1971 by $30,431, chiefly in Brazil. The components of the increase appear in the statements on pages 9 and 14 of this Review, while the composition of working capital at the beginning and end of the year is shown in the Statement of Consolidated Current Assets and Liabilities on page 8.

As indicated by the Funds Statement, funds were derived in 1971 almost exclusively from operations, and, aside from the working capital increase and dividend payments, were used chiefly for electric capital expenditures ($83,613), debt retirement ($10,823) and non-utility investments ($12,144).

Property, plant and equipment less depreciation thereon increased in 1971 by $62,854 from $709,246 to $772,100. The increase, which occurred chiefly in the electric utility, consisted of the following items:

Electric capital expenditures on transmission and distribution		$ 83,613
Interest on electric construction capitalized		3,314
		86,927
Less:		
Depreciation on electric plant	$ 25,409	
Other changes—electric	731	26,140
Total electric		60,787
Gávea hotel property		1,192
Other changes		875
		$ 62,854

The continuing upward trend of the capital requirements of the electric utility is evident from the capital expenditures of the past five years shown below:

1967	$56,881	1969	$75,074
1968	$67,125	1970	$77,930
1971	$83,613		

The steady increase in the load on the Light's systems ensures that annual capital needs will continue to grow.

The unrealized balance of gas company assets continues to be carried at book value, pending determination by the courts of the compensation payable thereon.

The North American investments shown in the consolidated balance sheet include the Company's holdings in John Labatt Limited and Hudson's Bay Company at cost ($57,484), and the investment in and advances to Mikas Oil Co. Ltd., whose accounts are not included in the consolidation. The book value of the Mikas investment increased by $9,121 in 1971 to a year-end total of $23,167. The increase represents the following:

Advance to cover the second instalment of the Can. $40,000 purchase price of 15% of the common shares of Elf (Canada)	$ 7,921
Advances for feasibility study on Sukunka coal deposits	1,093
1971 profit of Mikas Oil Co. Ltd.	107
	$ 9,121

Investments in Brazil shown in the balance sheet as "Shares and debentures at cost less amounts written off" include the assets listed below:

	1971	1970
Portfolio of listed securities	**$ 2,439**	$ 1,427
Shares in state power companies	**4,233**	4,233
Equities sold in 1971		943
Other equities (Celanese, Garcia, Eucatex, FNV, Brinks, etc.)	**10,048**	10,975
Debentures	**1,265**	1,308
	$ 17,985	$ 18,886

The equities included in the above table are all minority holdings. In addition the Brascan Group has majority holdings in two other companies in Brazil which are not consolidated and which appear as a separate item in the balance sheet. These are Fábricas Peixe, engaged in food processing, and Crefinan, a consumer finance company acquired in 1971 by Banco Brascan. These are carried on the equity accounting basis at the following amounts:

	1971	1970
Fábricas Peixe		
Investment	**$ 10,959**	$ 7,052
Less provisions	**5,287**	3,415
	5,672	3,637
Crefinan	**849**	
	$ 6,521	$ 3,637

As indicated above, approximately $3.9 million was invested in Fábricas Peixe in 1971.

STATEMENT OF CONSOLIDATED INCOME

for the years ended December 31

(Expressed in thousands of United States dollars)

	1971	1970
Electric Utility Income		
Operating revenues (Note 1)	$425,039	$369,276
Operating revenue deductions:		
Purchased power	150,476	129,012
Fuel oil	9,674	2,889
Salaries, wages and other operating expenses	101,549	85,855
Depreciation (Note 1)	25,409	23,747
Reversion (Note 1)	29,192	27,220
Income and withholding taxes (Notes 1 and 2)	19,974	26,770
	336,274	295,493
Operating income	88,765	73,783
Income deductions:		
Interest on long-term debt	3,307	3,849
Interest charged to construction—credit	(3,314)	(2,514)
Reversion interest (Note 1)	7,577	5,557
Equity of minority shareholders	14,891	11,553
	22,461	18,445
Net electric utility income	66,304	55,338
Investment Income		
North America		
Dividends and profits on sale of shares	5,027	2,385
Interest income	2,290	4,117
	7,317	6,502
Brazil		
Interest under telephone sale agreement	4,222	4,399
Income on short-term investments	3,500	2,321
Net income of investment subsidiaries after deducting income and withholding taxes (1971—$2,216; 1970—$1,082) (Note 9)	5,875	910
Provision for losses of unconsolidated subsidiaries (Note 4)	(2,100)	(2,000)
	11,497	5,630
Net investment income	18,814	12,132
Other Credits Less (Charges)		
Foreign exchange adjustments (Note 3)	895	937
General corporate expenses	(2,351)	(1,953)
Miscellaneous (net)	119	52
	(1,337)	(964)
Net Income for Year	$ 83,781	$ 66,506
Net Income per Ordinary Share	$ 3.60	$ 2.86

(see accompanying notes)

CONSOLIDATED BALANCE SHEET

(Expressed in thousands of United States dollars)

ASSETS

	December 31 1971	1970
Current Assets (per statement attached)		
North America	$ 41,587	$ 44,036
Brazil (Note 8)	156,499	103,481
	198,086	147,517
Investments		
North America		
Shares of Canadian companies at cost (Quoted market value 1971—$83,445; 1970—$77,472)	57,484	56,237
Investment in and advances to unconsolidated Canadian subsidiary (Note 4)	23,167	14,046
Other investments at cost	6,783	6,990
	87,434	77,273
Brazil		
Government-guaranteed obligations (Note 5)	66,620	69,949
Shares and debentures at cost less amounts written off	17,985	18,886
Investment in and advances to unconsolidated subsidiaries (Note 4)	6,521	3,637
	91,126	92,472
Other Assets		
North America		
Securities and cash on deposit with trustee under trust indentures	5,252	5,358
Sundry assets	162	157
	5,414	5,515
Brazil		
Materials and supplies at average cost	27,959	27,507
Sundry assets including long-term receivables	4,946	8,848
	32,905	36,355
Fixed Assets—Brazil		
Utility plant in service	1,057,611	992,611
Construction work in progress	45,981	34,119
Other physical property	5,260	3,270
Total property, plant and equipment at cost	1,108,852	1,030,000
Less accumulated depreciation (Note 1)	336,752	320,754
	772,100	709,246
Unrealized balance of gas company assets (Note 6)	26,923	26,923
	799,023	736,169
Less accumulated amortization (Note 7)	34,389	34,389
	764,634	701,780
	$1,179,599	$1,060,912

(see accompanying notes)

LIABILITIES

	December 31 1971	1970
Current Liabilities (per statement attached)		
North America	**$ 9,867**	$ 11,399
Brazil	**104,396**	82,726
	114,263	94,125
Other Liabilities—Brazil		
Long-term debt (per statement attached)	**46,413**	56,798
Accumulated reversion (Note 1)	**164,618**	127,849
Contributions in aid of construction	**35,588**	33,669
Minority interest in electric subsidiary	**76,273**	66,564
	322,892	284,880
Shareholders' Equity		
Capital		
Authorized—		
1,213 6% cumulative convertible preference shares of a par value of Can. $100.00 each (1970—1,213 shares)		
5,000,000 second preferred shares of a par value of Can. $20.00 each		
30,000,000 ordinary shares of no par value		
Issued and outstanding—		
1,213 6% preference shares (1970—1,213)	**121**	121
23,285,832 ordinary shares (1970—23,285,832)	**192,987**	192,987
	193,108	193,108
Retained earnings	**549,336**	488,799
	742,444	681,907
	$1,179,599	$1,060,912

On behalf of the Board:

J. H. Moore
N. J. McKinnon } Directors

(see accompanying notes)

STATEMENT OF CONSOLIDATED CURRENT ASSETS AND LIABILITIES

(Expressed in thousands of United States dollars)

	December 31 1971	December 31 1970
North America		
Current Assets		
Cash	**$ 977**	$ 8,422
Deposit receipts	**33,857**	19,400
Marketable investments at cost (Quoted market value 1971—$4,891; 1970—$15,013)	**4,927**	14,361
Accounts receivable	**1,826**	1,853
	41,587	44,036
Current Liabilities		
Accounts payable and accrued charges	**2,728**	4,695
Dividends payable	**7,139**	6,704
	9,867	11,399
Net current assets	**31,720**	32,637
Brazil (Note 8)		
Current Assets		
Cash	**16,493**	19,227
Treasury bills and other short-term investments	**88,158**	48,084
Government-guaranteed obligations due within one year (Note 5)	**1,689**	1,593
Interest-bearing secured loans	**9,616**	1,168
Accounts receivable	**40,543**	33,409
	156,499	103,481
Current Liabilities		
Accounts payable and accrued charges	**65,225**	41,159
Income and other taxes payable	**26,950**	29,599
Long-term debt payable within one year	**10,823**	10,568
Interest and dividends due and accrued	**1,398**	1,400
	104,396	82,726
Net current assets	**52,103**	20,755
Total Net Current Assets	**$ 83,823**	$ 53,392

(see accompanying notes)

STATEMENT OF CONSOLIDATED SOURCE AND APPLICATION OF FUNDS

for the years ended December 31

(Expressed in thousands of United States dollars)

	1971	1970
Funds Provided		
Funds provided from operations:		
Net income for year	**$ 83,781**	$ 66,506
Add (Deduct):		
Depreciation	**25,409**	23,747
Reversion	**29,192**	27,220
Interest charged to construction—credit	**(3,314)**	(2,514)
Reversion interest	**7,577**	5,557
Equity of minority shareholders	**14,891**	11,553
	157,536	132,069
Current portion of sale price of telephone utilities	**3,329**	3,140
Customers' contributions in aid of construction	**1,919**	2,226
Long-term borrowings	**438**	866
Increase in holdings of minority shareholders in electric subsidiary's capital	**714**	757
Miscellaneous changes in various assets and liabilities	**3,209**	1,367
Decrease in working capital		41,540
	167,145	181,965
Funds Used		
Capital expenditures—electric utility	**83,613**	77,930
Reduction in long-term debt	**10,823**	10,990
Increase in non-utility investments	**12,144**	58,982
Increase in materials and supplies—electric utility	**452**	4,241
Subsidiary dividends paid to minority shareholders	**6,438**	8,672
Dividends—preference	**7**	7
—ordinary	**23,237**	21,143
Increase in working capital	**30,431**	
	$167,145	$181,965

(see accompanying notes)

STATEMENT OF CONSOLIDATED RETAINED EARNINGS

for the years ended December 31

(Expressed in thousands of United States dollars)

	1971	1970
Balance at Beginning of Year	**$488,799**	$445,557
Net income for year	**83,781**	66,506
	572,580	512,063
Deduct dividends		
Cash		
Preference shares (Can. $6.00 per share)	**7**	7
Ordinary shares (U.S. $1.00 per share)	**23,237**	21,143
Stock		
Ordinary shares (U.S. $0.10 per share)		2,114
	23,244	23,264
Balance at End of Year	**$549,336**	$488,799

STATEMENT OF CONSOLIDATED LONG-TERM DEBT

(Expressed in thousands of United States dollars)

	December 31	
	1971	1970
Amounts due to International Bank for Reconstruction and Development*—		
4¼%, 4½%, 4⅞% and 6% loans, due semi-annually 1972 to 1978 inclusive, payable in U.S. funds	**$14,327**	$20,202
4¼%, 4½% and 6% loans, due semi-annually 1972 to 1978 inclusive, payable in Canadian funds	**7,539**	9,097
4½% and 6% loans, due semi-annually 1972 to 1978 inclusive, payable in sterling and French francs	**1,076**	1,299
	22,942	30,598

*The amounts due to International Bank for Reconstruction and Development (secured by a floating charge on the assets of Light—Serviços de Eletricidade S.A. and Brascan Limited—Note 10) are evidenced by obligations of Light—Serviços de Eletricidade S.A. under an Obligors Agreement dated June 9, 1965; by various Loan Agreements; and by the following Collateral Trust Bonds of Brascan Limited—

	U.S. Equivalent
Series A—payable in U.S. funds	$14,327
Series B—payable in Canadian funds	7,539
Series C—payable in sterling and French francs	1,076

	1971	1970
Light-Serviços de Eletricidade S.A.:		
United States of America Alliance for Progress 5½% loan (secured by a floating charge on the assets of Light), payable in U.S. funds in equal semi-annual instalments from January 28, 1972 to July 28, 1984 or, at the lender's option, in equivalent cruzeiros on those dates	**33,545**	36,125
Supplier financing, due semi-annually from 1972 to 1974, payable in Canadian and U.S. funds	**749**	643
	57,236	67,366
Less amount payable within one year included under current liabilities	**10,823**	10,568
	$46,413	$56,798

Maturities and sinking fund requirements during the next five years are as follows:

1972	$10,823	1975	$ 4,534
1973	$11,082	1976	$ 3,447
1974	$ 4,973		

(see accompanying notes)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollar amounts in thousands)

1. Electric Utility

(a) Rate structure

As a result of regulations enacted in November, 1964 pursuant to the Water Code the Company's electric subsidiary has operated, since January 1, 1965, under a system known as "service at cost". This system involves setting customers' rates for electricity at a level which will produce operating revenues sufficient to cover (i) operating expenses of the service (which expenses included corporate profits taxes paid up to December 31, 1971), (ii) provisions for depreciation and reversion (see below), (iii) allowable remuneration (at 10 per cent on the rate base up to December 31, 1971), and (iv) adjustment for prior years' deficiencies and surpluses. The main components of the rate base are plant in service (at depreciated net book value in cruzeiros monetarily corrected to offset the decline in the internal value of the currency) and working capital.

In any period, billings in excess of allowable levels (which must be reflected in rates established for future years) are excluded from current income and deferred to such future years; any deficiencies in earnings are only recoverable from future rates and are taken into income when received.

Billings in 1970 and 1971 were sufficient to cover the cost of service and in addition to recover all the 1969 deficiency of earnings, approximately \$3,600 in 1970 and the balance of \$300 in 1971.

The determination of the rate base has not yet been completed by the regulatory authority and electric income from January 1, 1965 may be subject to adjustment through future rates to reflect the final determination.

(b) Depreciation and reversion

Depreciation and reversion (see below) have been provided at the rates prescribed by the regulatory authority (each being approximately 3 per cent of depreciable or revertible plant).

Up to December 31, 1971 the regulations required that certain monies (known as reversion monies) generated by the rates be deposited in a special bank account and used either in partial settlement of the compensation upon reversion of the properties to the conceding authority or expended in approved expansion programs. With the permission of the regulatory authority, substantially all of the reversion monies to December 31, 1971 were withdrawn and invested in plant expansion.

(c) Reversion interest

Up to December 31, 1971 interest at 6 per cent per annum on reversion monies invested in plant also had to be credited to accumulated reversion and deposited in the special reversion bank account subject to the same provisions for withdrawal for plant expansion. The charge of \$7,577 (1970—\$5,557) in the statement of consolidated income represents the interest for the year 1971.

(d) Change in regulatory system

In May 1971, new legislation in Brazil changed the regulatory system applicable to the electric utility. Effective January 1, 1972, the legislation empowered the conceding authority to increase the maximum allowable rate of remuneration from 10 per cent to 12 per cent of the rate base. In the new schedule of electric rates which became effective on January 1, 1972, the rate of return on the rate base was increased to 12 per cent. For a period of four years, commencing January 1, 1972, the rate of tax payable by electric utilities will be reduced from 17 per cent to 6 per cent of taxable income, but corporate profits taxes paid will no longer be recoverable in electric rates. As at the same date, the rate of interest payable on reversion monies invested in electric plant up to the end of 1971 was increased from 6 per cent to 10 per cent.

Reversion funds collected by the electric subsidiary in electric rates after December 31, 1971 may no longer be directly withdrawn by it but rather will be placed, along with reversion funds collected by other utility companies, in a pool which will be administered by Eletrobrás, the federal power agency, to help finance the expansion programs of all electric utility companies in Brazil, in accordance with their needs. It is not yet known what portion of these pooled funds will be allotted to the electric subsidiary's expansion program.

Corporate profits taxes of the electric utility are paid, and until December 31, 1971 were recovered in the rates, in the year following that in which the income was earned. This, together with the change in the regulatory system with regard to corporate profits taxes referred to above, resulted in the recovery in operating revenues for the year ended December 31, 1971 of taxes on 1970 income at the rate of 17 per cent, which were provided for during 1970. Corporate profits taxes on 1971 income have been provided for at the new rate of 6 per cent, but when paid in 1972 will not be recoverable in operating revenues. Approximately \$10,334 of the improvement in electric operating income for the year ended December 31, 1971 (compared to the year ended December 31, 1970) in the statement of consolidated income is attributable to these tax changes.

The Company anticipates that in 1972 the increase in operating income resulting from the higher allowable rate of remuneration will be sufficient at least to offset reductions caused by the removal of corporate profits taxes from recoverable costs of service and by the increase in the rate of reversion interest.

2. Withholding Taxes

Interest and dividend payments from subsidiaries in Brazil are subject to regular Brazilian withholding taxes at the rate of 25 per cent, and full provision has been made for such taxes at that rate on interest paid or accrued, and on subsidiaries' earnings to the extent that distribution of such earnings by way of cash dividends is anticipated in the following year.

The law further provides that, should net dividend remittances to a company's foreign shareholders exceed 12 per cent of the dollar amount of registered capital averaged over three years, additional withholding taxes are exigible on a graduated scale from 40 per cent to 60 per cent.

3. Translation of Foreign Currencies

The Company's financial statements are expressed in United States currency. Assets, liabilities, revenues and expenses in currencies other than United States dollars have been translated into United States funds as follows:

(a) Current assets and current liabilities at the rates of exchange prevailing at December 31;

(b) Other assets and liabilities at the rates of exchange prevailing when they were acquired or incurred;

(c) Revenues and expenses at average official free market exchange rates for the year (or rates closely approximating these) except for depreciation provisions, which are at the same rates as those used for the translation of the related assets.

4. Investment in and Advances to Unconsolidated Subsidiary Companies

The consolidated financial statements include the accounts of the Company and all subsidiaries except one Canadian subsidiary (Mikas Oil Co. Ltd.) engaged in oil exploration and production and two Brazilian subsidiaries (Fábricas Peixe—a food processing company; Crefinan—a consumer finance company). As indicated in the table below, these investments are not significant in relation to the Company's total assets.

The Company's investment in these subsidiaries is carried on the equity accounting basis and, accordingly, full provision has been made in the statement of consolidated income and in the carrying value of the investments for the Company's proportion of their profits and losses for the years 1971 and 1970.

The investment in, advances to, and the Company's proportion of profits or losses of these subsidiaries were as follows:

	Mikas Oil Co. Ltd.	Brazilian Subsidiaries
December 31, 1971		
Investment	$ 2,503	$ 6,521
Advances	20,664	
	$23,167	$ 6,521
December 31, 1970		
Investment	$ 2,396	$ 1,110
Advances	11,650	2,527
	$14,046	$ 3,637
Company's proportion of profit (loss)		
Year 1971	$ 107	$(2,100)
1970	(23)	(2,000)

The Company, through Mikas Oil Co. Ltd., has agreed to acquire a 15 per cent equity interest in Elf Oil Exploration and Production Canada Ltd. for Can.$40,000 payable over a maximum period of five years ending January, 1974 (of which Can.$16,000 had been paid to December 31, 1971).

5. Government-Guaranteed Obligations

This amount, together with interest at 6 per cent, is receivable in equal quarterly instalments from October 1, 1972 to January 1, 1986 with respect to the sale of the Company's telephone utilities in 1966 to an agency of the Federal Government of Brazil. Payments under the sale agreement carry the guarantee of that Government. The Company is obligated to reinvest 75 per cent of this amount in other enterprises in Brazil over the term of the agreement. The amounts receivable within one year are included under current assets.

6. Unrealized Balance of Gas Company Assets

This represents the book value of the unrealized balance of the assets of the São Paulo gas service expropriated in 1967 and the net book value of the gas plant in Rio de Janeiro which was transferred to the State of Guanabara in 1969.

The compensation receivable for these assets has not yet been determined, but no material loss on final settlement is anticipated.

7. Accumulated Amortization

This provision (accumulated prior to 1953) may be required to cover part of the undepreciated cost of certain utility properties upon their reversion or other transfer to conceding authorities.

8. Exchange Regulations

Remittances from Brazil are subject to the exchange regulations of that country. Inter-company interest and related sinking fund payments from the electric subsidiary together with payments under the telephone sale agreement are fully remittable in dollars. Dividend payments from the electric subsidiary, under current interpretation of the regulations, are 47.7 per cent remittable in dollars (with the balance being available in cruzeiros in Brazil). Dividend payments from the various Brazilian investment subsidiaries are either wholly or partially remittable in dollars.

9. Net Income of Investment Subsidiaries

Net income of investment subsidiaries includes profits on security sales realized by these subsidiaries less amounts written off certain investments held by them.

10. Long-Term Debt

Negotiations are currently underway for the purpose of eliminating the floating charge on the assets of Brascan Limited while retaining such charge on the assets of Light.

11. Remuneration of Directors and Officers

During 1971 the aggregate remuneration of the Company's directors as directors and the Company's officers as officers was as follows:

	Directors		Officers		Number of Officers who were also Directors
	Number	Amount	Number	Amount	
Paid by the Company	23	$126	11	$325	5
Paid by one subsidiary				$411	
Paid by another subsidiary				$ 75	

AUDITORS' REPORT

To the Shareholders
of Brascan Limited

We have examined the consolidated balance sheet and the statements of consolidated current assets and liabilities and long-term debt of Brascan Limited and subsidiary companies as at December 31, 1971, and the statements of consolidated income, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1971 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada
March 13, 1972

CLARKSON, GORDON & CO.
Chartered Accountants

ANALYSIS OF CONSOLIDATED INCOME BY CURRENCIES

for the years ended December 31

(Expressed in thousands of United States dollars)

	1971	1970
Dollar Components		
Net electric utility income	$18,135	$20,664
Investment income		
North America	7,317	6,502
Brazil		
Interest under telephone sale agreement	4,222	4,399
Net income of investment subsidiaries	515	806
Provision for losses of unconsolidated subsidiaries	(228)	
Other charges less credits	(2,258)	(1,979)
	27,703	30,392
Cruzeiro Components		
Net electric utility income	48,169	34,674
Investment income—Brazil		
On short-term investments	3,500	2,321
Net income of investment subsidiaries	5,360	104
Provision for losses of unconsolidated subsidiaries	(1,872)	(2,000)
Other credits less charges	921	1,015
	56,078	36,114
Net Income per Statement of Consolidated Income	$83,781	$66,506
Net Income per Ordinary Share		
Dollar components	$ 1.19	$ 1.31
Cruzeiro components	2.41	1.55
	$ 3.60	$ 2.86

ANALYSIS OF STATEMENT OF CONSOLIDATED SOURCE AND APPLICATION OF FUNDS BY CURRENCIES

for the years ended December 31

(Expressed in thousands of United States dollars)

	1971	1970
Dollar Components		
Funds Provided		
From operations—net income for year	$ 27,703	$ 30,392
Current portion of sale price of telephone utilities, less amount reinvested in Brazil	(221)	1,092
Repayment of electric subsidiary debt to parent	5,000	5,000
Miscellaneous changes in various assets and liabilities	6	303
Decrease in working capital	917	38,127
	33,405	74,914
Funds Used		
Increase in non-utility investments	10,161	53,764
Dividends—preference shares	7	7
—ordinary shares	23,237	21,143
	33,405	74,914
Cruzeiro Components		
Funds Provided		
From operations:		
Net income for year	56,078	36,114
Add (Deduct):		
Depreciation	25,409	23,747
Reversion	29,192	27,220
Interest charged to construction—credit	(3,314)	(2,514)
Reversion interest	7,577	5,557
Equity of minority shareholders	14,891	11,553
	129,833	101,677
Telephone sale proceeds transferred to Brazil for reinvestment	3,550	2,048
Customers' contributions in aid of construction	1,919	2,226
Long-term borrowings	438	866
Increase in holdings of minority shareholders in electric subsidiary's capital	714	757
Miscellaneous changes in various assets and liabilities	3,203	1,064
Decrease in working capital		3,413
	139,657	112,051
Funds Used		
Capital expenditures—electric utility	83,613	77,930
Reduction in long-term debt	15,823	15,990
Increase in non-utility investments	1,983	5,218
Increase in materials and supplies—electric utility	452	4,241
Subsidiary dividends paid to minority shareholders	6,438	8,672
Increase in working capital	31,348	
	$139,657	$112,051

COMPARATIVE STATEMENT OF CONSOLIDATED INCOME

for the years ended December 31

(Expressed in thousands of United States dollars)

Electric Utility Income	**1971**	1970	1969	1968	1967	1966	1965
Operating revenues	**$ 425,039**	$ 369,276	$ 302,802	$ 257,612	$ 249,531	$ 218,942	$ 165,075
Operating revenue deductions:							
Purchased power	**150,476**	129,012	91,341	61,516	53,768	47,249	33,295
Fuel oil	**9,674**	2,889	16,812	14,254	9,800	11,453	10,449
Salaries, wages and other operating expenses	**101,549**	85,855	73,241	65,378	65,623	52,843	39,472
Depreciation	**25,409**	23,747	22,212	20,564	19,271	31,202	25,944
Reversion	**29,192**	27,220	19,635	17,853	18,128	15,978	13,896
Income and withholding taxes	**19,974**	26,770	21,905	21,743	22,779	18,932	11,938
	336,274	295,493	245,146	201,308	189,369	177,657	134,994
Operating income	**88,765**	73,783	57,656	56,304	60,162	41,285	30,081
Income deductions	**22,461**	18,445	14,663	12,955	11,856	8,453	6,321
Net electric utility income	**66,304**	55,338	42,993	43,349	48,306	32,832	23,760
Investment Income							
North America	**7,317**	6,502	7,043	5,854	4,195	3,079	1,471
Brazil	**11,497**	5,630	9,334	7,990	6,776	7,456	1,141
	18,814	12,132	16,377	13,844	10,971	10,535	2,612
Other Credits Less (Charges)	**(1,337)**	(964)	690	(1,640)	(7,706)	(4,103)	(6,892)
Net Income Before Extraordinary Items	**83,781**	66,506	60,060	55,553	51,571	39,264	19,480
Extraordinary items—credit (debit)				3,632		(2,885)	
Net Income for Year	**$ 83,781**	$ 66,506	$ 60,060	$ 59,185	$ 51,571	$ 36,379	$ 19,480

(In accordance with current accounting practice the $18,815 loss on sale of the telephone utilities charged to retained earnings in 1965 would be classified as an extraordinary item)

OPERATING STATISTICS OF LIGHT—SERVIÇOS DE ELETRICIDADE S.A.

	1971	1970	1969	1968	1967	1966	1965
Kilowatt hours sold (millions)							
Residential	**4,651**	4,162	3,882	3,504	3,145	2,862	2,642
Commercial	**3,278**	3,037	2,827	2,554	2,266	2,149	2,032
Industrial	**9,972**	8,585	8,090	7,209	6,262	6,131	5,313
Public utilities and others	**2,409**	2,135	2,081	2,062	1,972	1,655	1,654
Total	**20,310**	17,919	16,880	15,329	13,645	12,797	11,641
Customers	**3,272,943**	3,055,595	2,846,602	2,662,376	2,535,389	2,403,078	2,285,025
Employees	**25,866**	25,216	24,549	23,449	22,949	21,562	19,319
Capacity of generating plants (kw)	**2,119,000**	2,119,000	2,121,357	2,121,357	2,147,813	2,146,823	2,146,823
Transmission lines (miles of circuit)	**2,932**	2,818	2,779	2,668	2,650	2,534	2,504
Distribution network							
Lines (miles of wire)	**149,300**	137,613	123,334	112,515	104,062	97,036	91,873
Transformer capacity (kva thousands)	**4,421**	4,119	3,564	3,190	2,846	2,504	2,285

CORPORATE STRUCTURE

Brascan LIMITED
An investment management company
(incorporated in Canada)

- **BRAZILIAN UTILITY INVESTMENTS**
  - **GOVERNMENT-GUARANTEED OBLIGATIONS** — $68 MILLION
    - Balance owing to Brascan from the sale of its telephone utilities to the Government of Brazil in 1966
  - **ELECTRIC UTILITY INVESTMENT** — ASSETS $917 MILLION*
    - LIGHT (83%)
      (Light—Serviços de Eletricidade S.A.)
      Generation, purchase, transmission and distribution of electric power in concession areas which include São Paulo and Rio de Janeiro
- **CANADIAN AND OTHER INVESTMENTS** — ASSETS $134 MILLION*
  - JOHN LABATT LIMITED (32%)
    A Canadian management holding company engaged, through its group of companies, in the manufacture, distribution and sale of beverages and a wide range of industrial products, consumer food products and food service
  - HUDSON'S BAY COMPANY (7%)
    A retail and wholesale company with interests in oil and gas exploration
  - ELF OIL EXPLORATION & PRODUCTION CANADA LIMITED (15%)
    An oil exploration and development company controlled in France
  - MIKAS OIL CO. LTD. (100%)
    A Canadian oil production and exploration company
  - BRASCAN INTERNATIONAL B.V. (100%)
    A Netherlands holding company
  - Other assets and investments
- **OTHER BRAZILIAN INVESTMENTS** — ASSETS $60 MILLION*
  - OEG (100%)
    (Organização e Empreendimentos Gerais S.A.)
    Holding company
  - TOP (100%)
    (Emprêsa Técnica de Organização e Participações S.A.)
    Holding company
  - BANCO BRASCAN (100%)
    (Banco Brascan de Investimento S.A.)
    Investment Bank
  - BRASNAC (100%)
    (Brasnac—Participações e Investimentos Ltda.)
    Investment company
  - FÁBRICAS PEIXE (92%)
    (Indústrias Alimentícias Carlos de Britto S.A.)
    Food processing
  - CELANESE (45%)
    (Celanese do Brasil Fibras Químicas Ltda.)
    Manufacturer of nylon yarn
  - FNV (35%)
    (Fábrica Nacional de Vagões S.A.)
    Manufacturer of railway rolling stock, automotive parts, etc.
  - EUCATEX (12%)
    (Eucatex S.A.—Indústria e Comércio)
    Manufacturer of acoustic tiles, hardboard, etc.
  - GARCIA (19%)
    (Emprêsa Industrial Garcia S.A.)
    Manufacturer of terry towelling, linen goods, etc.
  - GÁVEA HOTEL (67%)
    (Gávea Hotelaria e Turismo S.A.)
    Hotel company
  - BRINK'S (49%)
    (Brink's S.A.—Transporte de Valôres)
    Security transport
  - Other assets and investments

*Asset values represent book values at 31st December, 1971 without deduction of liabilities which are set out on page 7.

According to preliminary estimates made by the Getulio Vargas Foundation, Brazil's Gross National Product increased by 11.3 per cent in 1971, a figure which is particularly significant. This is the fourth consecutive year showing a growth in GNP in excess of 9 per cent. The average annual increase over the four year period was 9.8 per cent per annum.

At this rate of growth of real product and, based on a yearly population increase of approximately 2.8 per cent, Brazilian per capita income should double in ten years. The increase by sectors was as follows:

	1971/70 %	1970/69 %
Agriculture	11.4	5.6
Industry	11.2	11.1
Transportation and Communications	8.4	14.9
Trade	12.8	8.9
Total	11.3	9.5

The industrial sector shows the most constant rate of growth: 1971 was the third consecutive year of an industrial expansion in excess of 11 per cent. The most dynamic industrial sectors were transportation equipment (increase of approximately 18 per cent) and rubber, metallurgical, mechanical, electrical products, and communications (all approximately 15 per cent).

Anti-Inflationary Policy

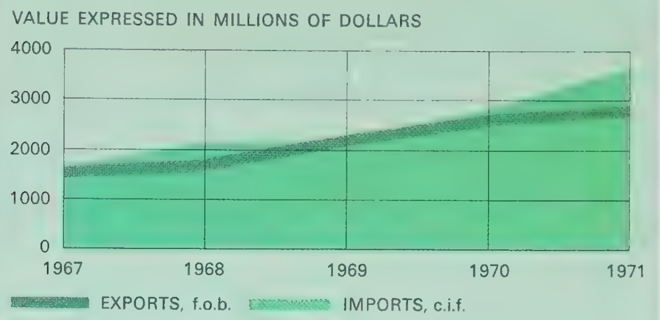
Prices rose by 18.1 per cent in 1971 compared to 20.9 per cent in 1970, representing a 2.8 per cent improvement. A major factor in this result was the Government's monetary policy, which continued to be directed toward deceleration of inflation without impeding economic growth.

During 1971 the National Treasury showed a cash deficit representing approximately 0.3 per cent of the GNP, a substantial reduction in real terms compared to the 1970 deficit. No tax increases occurred during the period, and the entire deficit was amply financed from non-inflationary resources, through the sale of Government bonds to the public.

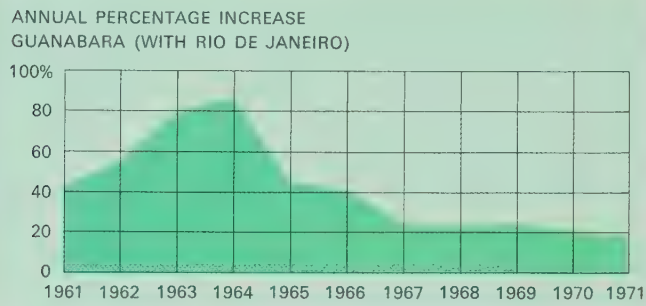
Foreign Trade and Balance of Payments

Brazilian exports, which expanded remarkably in recent years (13.7 per cent in 1968, 22.9 per cent in 1969, 18.5 per cent in 1970), reached $2.9 billion (f.o.b.) in 1971, which was an increase of 6 per cent, considerably less than in previous years. Results in 1971 were affected by a drop in international coffee prices, although shipments exceeded those of 1970. Exports of manufactured and semi-manufactured products continued to grow at a remarkable pace, totalling $700 million in 1971, 50 per cent more than in the preceding year.

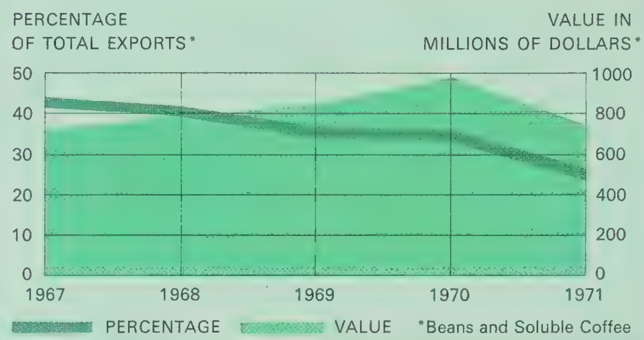
Foreign Trade 1967-1971



Cost of Living 1961-1971



Coffee Exports 1967-1971



PRINCIPAL EXPORTS	1965	1966	1967	1968	1969	1970	1971	Percentage increase '65-'71
	Value Expressed in Millions of Dollars							
Coffee Beans	707	764	705	774	813	912	700	–1
Soluble				23	33	42	48	
Manufactured Goods	110	104	157	201	288	455	797	625
Cotton	96	111	91	131	196	154	120	25
Iron Ore	103	100	100	107	147	210	267	159
Sugar	57	80	79	102	115	127	152	167
Cocoa Beans	28	51	59	46	105	78	108	286
Pinewood	52	56	48	65	72	68	82	58
Total All Exports	1,595	1,741	1,654	1,890	2,311	2,711	2,830	77

(Based on figures supplied by Bank of Brazil)

Imports rose to $3.7 billion, 29 per cent more than the year before. This resulted in a deficit trade balance estimated at approximately $775 million.

The balance of current transactions, showed a $1.3 billion deficit in 1971, considerably higher than the 1970 figure of $562 million. Capital movement (net) totalled $1.6 billion, compared to $1.1 billion in 1970. Loans and financing reached about $2 billion.

The Brazilian balance of payments position showed a surplus of $536 million, varying only slightly from last year's figure of $545 million.

The fact that tradition need not preclude change has been a guiding principle of Light S.A. With a proud, but demanding tradition of service over many years, Light has not only kept pace with the social, economic and technological progress made by Brazil, especially during the last decade, but has on many occasions been in the forefront of Brazil's drive to develop its resources.

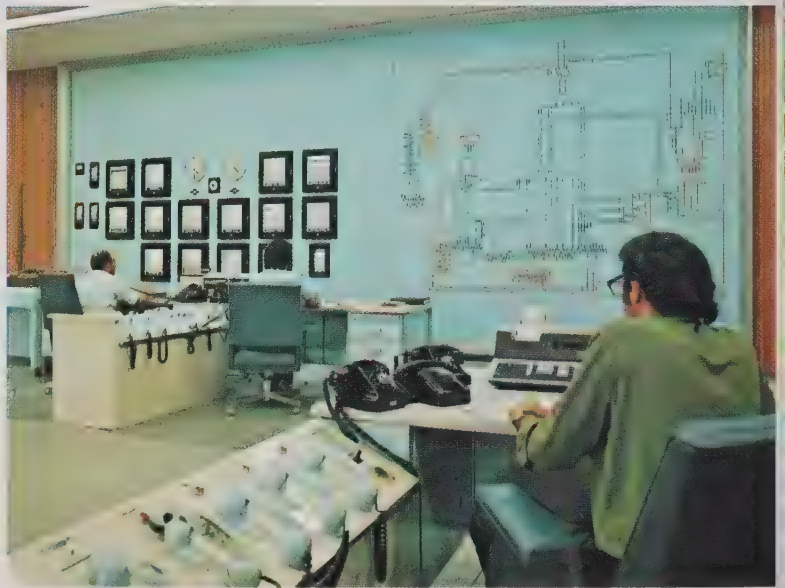
But the Light has not been content merely to operate its service on the same standard year after year. In 1971, following an overall reorganization plan, the process of introducing an area management system was initiated, in an effort to bring the Company closer to its customers, which at the year end numbered well over three and a quarter million.

To deal with this huge number of customers, who in 1971 were responsible for an expansion of business in the concession area of 13.3 per cent, the Light at the end of the year had 25,866 employees, the largest payroll in private enterprise in Brazil.

In its employee relations, Light has also played a pioneering role. Before the weekly paid day of rest became mandatory in 1949, the Company's employees were the only wage-earners in Brazil to enjoy this benefit.

In addition to supplying its employees and their families with full medical services at no cost, the Light has made available to them a large property, situated in the northern area of Rio de Janeiro, as a recreational centre, with clubhouse, ballroom, football field, basketball, volleyball and tennis courts, as well as other facilities. A vacation resort, on Company land, only a few hours from Rio de Janeiro, is extensively used by Light employees on holiday. Both institutions are partly subsidized by the Light.

At its power plants in Lajes and Ilha, the Company maintains primary schools for children of the employees and night schools for adults. In 1971, enrolment at Lajes was 481 children and 90 adults, while Ilha had 264 children and 83 adults. Tuition at both establishments is free.



Top left: *Electrical appliances are becoming more and more a feature of Brazilian homes. During 1971, sales of household electric and electronic appliances rose by 32 per cent. Greatest increases were in air conditioners (69 per cent), vacuum cleaners (37 per cent) and refrigerators (30 per cent).*

Top right: *A Light customer service representative in São Paulo arranges to supply electrical service to a householder. Each month the Light adds 20,000 new customers.*

Bottom left: *J. Grant Glassco Control Centre at Piratininga, near São Paulo. The modern Load Frequency Control System regulates the supply of power to the concession area from regional Light plants and other electric utility companies.*

Bottom centre: *Modern medical services are an important part of the Light's employee welfare benefit program. Here a registered nurse in the Company's Rio de Janeiro medical department prepares to take an electrocardiogram.*

Bottom right: *The Light has built a tradition of service to its customers. Here, in the early morning, a Light truck makes its way through a heavy rainstorm to repair a damaged power line. The Light has more than three and a quarter million customers—residential, commercial and industrial.*

Food products from the Labatt group of companies are familiar items on Canadian tables.

John Labatt Limited

The nine-month report of John Labatt Limited for the period ending January 31, 1972 indicates that this company increased its earnings, before an extraordinary loss of Can. $3,315,000 resulting from the sale of its interest in Lucky Breweries Inc., to Can. $12.7 million, compared with Can. $12.4 million during the same period of the previous year. Labatt's continued to increase its share of the beer market in Canada, with a growth in sales of 12.9 per cent during the nine-month period, compared with a 6 per cent increase for the Canadian brewing industry as a whole.

During the year Labatt's acquired the brewing business of Oland's, a major brewer in the Maritime Provinces, thereby achieving locally-based production and distribution facilities from coast to coast.

Although Labatt's food and allied products operations showed improvement for the nine-month period as compared with the previous year, two major exceptions reduced overall profitability. These were the incidence of higher marketing and other costs in the grocery products division and the seriously depressed prices in the poultry products and livestock industries.

Hudson's Bay Company

Hudson's Bay Company, in which Brascan Limited owns a 6.7 per cent interest, is a major Canadian retailer and wholesaler, plays an important part in the fur trade, and owns oil and gas rights on 4.5 million acres of land in Western Canada. It also has a 21.9 per cent interest in Hudson's Bay Oil & Gas Company Limited, Canada's largest non-integrated oil and gas exploration company.

Net income of Hudson's Bay for the year ended January 31, 1972 was Can. $13.3 million compared with Can. $10.9 million the previous year.

Elf Oil Exploration and Production Canada Ltd.

During the year your Company paid a further instalment of Can. $8 million on its undertaking to invest Can. $40 million in Elf Oil Exploration and Production Canada Ltd. over a maximum period of five years, in return for a 15

per cent interest in that company. Brascan's shares in Elf Oil are held through its wholly-owned subsidiary, Mikas Oil Co. Ltd. Elf's holdings of oil and gas rights total some 19.4 million net acres in 50 million gross acres located in the Arctic islands, the offshore East coast of Canada, the Mackenzie Delta and the Beaufort Sea, as well as in Hudson Bay and Western Canada. Its budgeted exploration expenditures to 1974 total Can. $65 million, and it is actively engaged in drilling and exploration on its land holdings.

Mikas Oil Co. Ltd.

Mikas has 9.8 million barrels of recoverable oil reserves, chiefly in Alberta, and a 12.5 per cent interest in Magnorth Petroleum Limited which holds some 12 million net acres of exploratory lands in the Arctic.

Sukunka Coal Project

In August of 1971, Brascan, through Mikas Oil Co. Ltd., entered into an agreement with Brameda Resources Limited, Teck Corporation Limited and Coalition Mining

Geologist takes samples from a seam of the Sukunka coal deposit in northern British Columbia.

Hudson's Bay Company's main retail store in downtown Calgary. The Company has had a store in Calgary since 1874.

Limited to explore the possibilities of development of the Sukunka coking coal deposits near Chetwynd, B.C. Mikas undertook to carry out a $1.5 million feasibility study in exchange for a 7½ per cent working interest in the coal licences and an option to purchase an additional 42½ per cent interest for Can. $8,650,000.

If this option is exercised, Mikas will be obligated to arrange the necessary financing for the development. The feasibility study is not yet completed.

Brazilian Non-Utility Investments

Brascan's non-utility investment program in Brazil gained momentum in 1971 with the expansion of the lending activities of Banco Brascan, the acquisition of a controlling interest in Crefinan S.A., a finance company active in the consumer finance field, and a general review and re-orientation of the non-financial investments into compatible fields of activity which show greatest growth and profit potential. Profits improved chiefly as a result of the investment banking activities, which benefited not only from the expansion program being carried out in that area, but also from its trading in an exceptionally favourable stock market during most of the year.

Banco Brascan

Activities were greatly expanded during the year, not only in the field of medium-term financing for business, but also in the areas of the money market, underwriting and fund management. The purchase of control of Crefinan permitted Banco Brascan to extend its range of services to all areas of the financial field, with the exception of those reserved exclusively to commercial banks. Banco Brascan's main office is in Rio de Janeiro, and it has opened branches in São Paulo and Recife, capital of the State of Pernambuco in the North East of Brazil.

Fábricas Peixe

A widespread management reorganization took place within Peixe, which is the second largest food processor in Brazil, in accordance with the objectives defined early in the year for the carrying out of a three-to-five-year development plan.

Gávea Hotelaria e Turismo S.A.

This company, a joint venture between the Brazilian investment group (two-thirds of the equity) and Inter-continental Hotel Corporation, a subsidiary of Pan American Airlines (one-third of the equity), was organized in Brazil to build and operate a 500-room hotel on Gávea Beach, Rio de Janeiro. The cost of this project is estimated at $15 million and it will be partially financed through a $4.5 million loan made by Brascan Limited.

Grading and fencing of the site, which includes an area reserved for future real estate development, has already been carried out, and construction will start by mid-1972 for completion in 1974.

Celanese do Brasil

Adverse market conditions continued through 1971, and the results for the year suffered in consequence. Provision for a loss of $1.7 million has been made against the valuation of this company in the year's accounts.

Brascan Nordeste—Sociedade Civil de Desenvolvimento e Pesquisas

A non-profit research and development organization was established in late 1971 with the purpose of carrying out and financing research and development activities designed to improve agricultural yields, industrial productivity and general standards of living in the North East region of Brazil. This area (625,000 square miles) with a population of over 30 million, has the lowest living standards in Brazil and, as a result, has been the object of both government and private programs designed to accelerate its development. The Brascan Nordeste program, the social impact of which will be considerable, is financed by a contribution of $1.8 million made through Brasnac, a non-utility subsidiary. The specific projects to be undertaken by the organization will be selected in consultation with a special committee composed of community leaders who are concerned with the development of the North East.

Far left: *Fábricas Peixe, Brazil's second largest food processing company, uses modern canning and packaging techniques in preparing a wide variety of fruit and vegetable products.*

Top: *A unique feature of the marketing program of Eucatex S.A. is this showroom in São Paulo which exhibits modern Brazilian art against a background of various types of wallboard and ceiling tile produced by the company.*

Bottom: *Meeting of the Credit Committee of Banco Brascan. (left to right) Dr. Paulo Prado, Assistant Director for Credit; Dr. Pedro Leitão da Cunha, Director of Operations; Dr. Roberto Paulo Cesar de Andrade, General Manager Director; Dr. João Saavedra, Director of Financial Development and Mr. Alec Thomas Cousins, Financial Director.*

PRINTED IN CANADA

Brascan
LIMITED

A Corporate Study

February, 1971

REPRODUCED FROM THE FIRST ANNUAL REPORT OF THE BOARD OF DIRECTORS TO THE SHAREHOLDERS COVERING THE PERIOD FROM THE INCORPORATION OF THE COMPANY TO THE 31ST DECEMBER, 1913.

Brazilian Traction, Light and Power Company, Limited.

(Incorporated under the laws of the Dominion of Canada.)

SHARE CAPITAL: Authorised, $120,000,000,

DIVIDED INTO

1,100,000 ORDINARY SHARES of $100 each,

100,000 6 per Cent. CUMULATIVE PREFERENCE SHARES of $100 each.

Directors.

SIR WM. MACKENZIE, *Chairman*, Toronto.
DR. F. S. PEARSON, *President*, New York.

Z. A. LASH, K.C., Toronto, *Vice-President.*
E. R. WOOD, Toronto, *Vice-President.*
WALTER GOW, Toronto, *Vice-President.*
MILLER LASH, Toronto, *Vice-President.*
H. MALCOLM HUBBARD, London, *Vice-President.*

D. B. HANNA, Toronto.
ALFREDO MAIA, Rio de Janeiro.
SIR WM. C. VAN HORNE, Montreal.
J. S. LOVELL, Toronto.
R. M. HORNE-PAYNE, London.
SIR H. M. PELLATT, Toronto.
W. BAIN, Toronto.
C. D. MAGEE, Toronto.

Secretary.

J. M. SMITH ... ... Toronto.

Assistant Secretary.

T. PORTER ... ... London.

Bankers.

THE CANADIAN BANK OF COMMERCE,
Toronto, New York and London.

THE BANK OF SCOTLAND,
Edinburgh and London.

Solicitors.

BLAKE, LASH, ANGLIN & CASSELS ... ... Toronto.

Auditors.

W. S. ANDREWS & CO. ... ... Toronto, Canada.

Offices.

HEAD OFFICE ... ... 9 Toronto Street, Toronto, Ontario, Canada.
LONDON OFFICE ... ... 34 Bishopsgate, E.C.

Brascan
LIMITED

A Corporate Study

February, 1971

WOOD
GUNDY

Wood Gundy wishes to acknowledge and thank the agencies and organizations listed below for their co-operation in providing useful information for this study. The authors of the text visited all of those listed.

The United States of America, State Department—Bureau of Inter-American Affairs	*Washington, D.C.*
The Organization of American States	*Washington, D.C.*
The International Bank for Reconstruction and Development	*Washington, D.C.*
The International Monetary Fund	*Washington, D.C.*
The Inter-American Development Bank	*Washington, D.C.*
The Brascan Group of Companies, principally:	
Brascan Limited	*Toronto*
LIGHT—Serviços de Eletricidade S.A.	*Rio de Janeiro*
Banco Brascan de Investimento S.A.	*Rio de Janeiro*
The Getúlio Vargas Foundation	*Rio de Janeiro*
The Canadian Trade Commission	*Rio de Janeiro*
The Canadian Embassy	*Washington, D.C.*
The Canadian International Development Association	*Ottawa*
The First National City Bank	*Rio de Janeiro*

TABLE OF CONTENTS

NOTES

1. All dollar figures are United States currency unless otherwise noted.
2. All growth rates have been adjusted for inflation, devaluation, etc.
3. All necessary adjustments have been made to the statistics for the 10% stock dividend paid in January, 1971.

This is a lengthy report and many readers may want to initially develop a quick overview. This can be done by reading the sections or paragraphs starting with a green circle and ending with a green square. There are no green circles or squares in the Appendix.

BRASCAN LIMITED

CONSOLIDATED CONDENSED CAPITALIZATION

(As at December 31, 1969)

		% of Total Capitalization
Minority Interest in Subsidiary	$ 62,926,227	7.0
Contributions in Aid of Construction	31,442,797	3.5
Accumulated Reversion	95,071,795	10.6
Long-Term Debt (1)	66,921,672	7.4
Deferred Credits	6,053,650	0.7
Preference Shares—6% Cumulative Convertible $100 par value	133,800	
Ordinary Shares—21,170,474 (2) Ordinary shares of no par value	190,860,124	21.2
Retained Earnings	445,556,882	49.6
TOTAL	$898,966,947	100.0

(1) Of this amount $30,598,000 is due to the International Bank for Reconstruction and Development, maturing in instalments to 1978, and $35,993,000 is due to the United States of America Alliance for Progress maturing in instalments to 1984.

(2) The 10% stock dividend of January 1971 will increase this to a maximum 23,288,546 shares.

EARNINGS AND DIVIDEND DATA

Year	Earnings Per Share(1,2)	Dividends Per Share(2,3)	Shares(2) Outstanding (000)
1965	$0.85	$0.32	22,829
1966	1.72	0.63	22,842
1967	2.24	0.72	23,039
1968	2.40	0.76	23,188
1969	2.58	1.06(4)	23,265
1970	2.75 (Estimated)	0.91	23,289

Indicated Dividend

The annual dividend rate currently indicated is $1.00 per share payable quarterly.

Interim Earnings

In the first nine months of 1970 estimated net profit per Ordinary share amounted to $2.23 compared with $1.92 in the same period of 1969.

(1) Before extraordinary items.

(2) Adjusted for 20% and 10% stock dividends of 1969 and 1971.

(3) Dividends have been paid in U.S. currency since the fourth quarter of 1967. All figures shown are the U.S. equivalent.

(4) In 1969 a $0.25 extra was paid—the equivalent of $0.19 per share after the adjustments noted in (2) above.

SUMMARY & RECOMMENDATION

Brascan Limited is one of Canada's oldest, largest and most distinctive companies. We believe it has intriguing investment qualities.

The holding company now bearing the name Brascan Limited was incorporated as Brazilian Traction, Light and Power Company, Limited under the laws of Canada in 1912 when it acquired, by share exchange, over 99% of the outstanding stock of several Canadian power companies then operating in Brazil. These companies had been formed by a group of prominent Canadians associated with Dr. F. S. Pearson, and held concessions to generate and distribute hydro-electric power in and around the cities of São Paulo and Rio de Janeiro, primarily for the purpose of operating tramway services. They included The São Paulo Tramway, Light and Power Company, Limited (incorporated in 1899) and The Rio de Janeiro Tramway, Light and Power Company, Limited (incorporated in 1904).

In the ensuing 15 to 20 years the group acquired other electric concessions and subsidiaries providing electric, telephone, gas, tramway and water services in various cities in the States of São Paulo and Rio de Janeiro and in the then Federal District (the City of Rio de Janeiro). In due course the telephone service was extended to the States of Minas Gerais and Espirito Santo. By 1950 the territory served by the subsidiary utility companies comprised an area of about 250,000 square miles with a population of some 20 million in the heart of modern Brazil. At that time the companies produced and distributed approximately 65% of all the electric power generated in the country and supplied over 80% of the telephone service.

Between 1956 and 1959 the Company's principal subsidiaries transferred their head offices to Brazil and acquired Brazilian nationality and Brazilian names. In mid-1967 all the electric subsidiaries were absorbed into the principal São Paulo company, and the unified entity was named Light—Serviços de Eletricidade S.A. ("LIGHT").

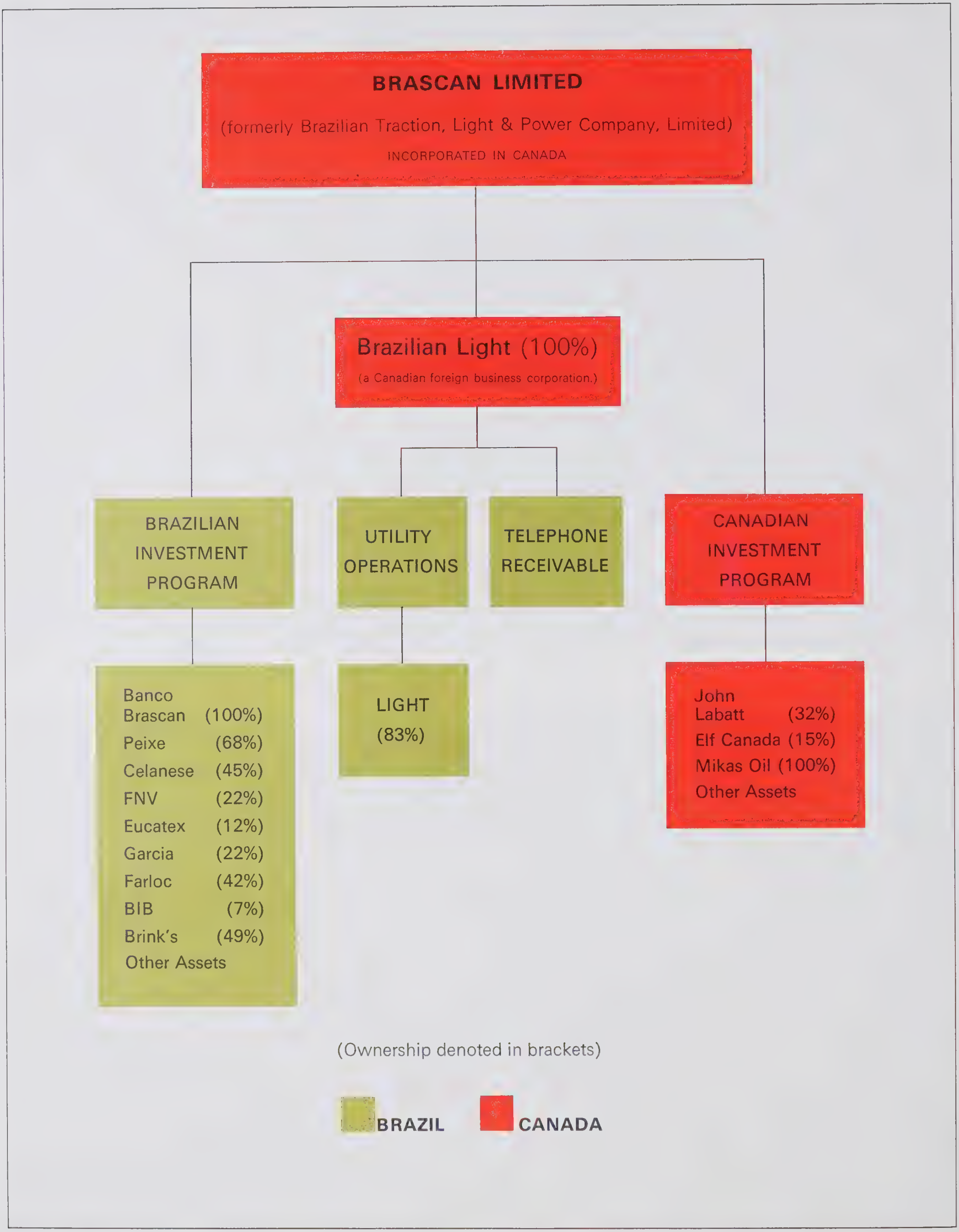
In the past decade the group's electric sales have been increasing at an average annual rate of just under 10%, and its principal effort has been devoted to the expansion of its electric transmission and distribution system. This process has been accompanied by gradual withdrawal from the other utility fields. The telephone system was sold early in 1966 to the Federal Government of Brazil for $96,000,000, payable over 20 years with interest at 6% per annum and some $65,000,000 of the proceeds to be reinvested in Brazil. In the past three years the gas services formerly provided in the cities of São Paulo and Rio de Janeiro have been transferred to those municipalities. The gas service in Santos was discontinued in January, 1967.

The word "Traction" was dropped from the Company's name in 1966 after the completion, at the end of 1963, of the transfer to the municipal authorities, of the last of tramway operations.

A Canadian foreign business corporation was acquired as a wholly-owned subsidiary at the end of 1968 and given the name Brazilian Light Limited. All the parent company's holdings in LIGHT, along with the unpaid balance of the telephone sale price, were transferred to Brazilian Light Limited as of January 1, 1969. In June of the same year the parent's corporate name was changed to Brascan Limited.

Brascan's diversification program in Brazil started on a relatively small scale in 1965 and has gradually increased in size since the sale of the telephone utilities. Equity investments in various fields are being made through two wholly-owned investment subsidiaries, one of which has a subsidiary of its own carrying on an investment banking business.

Outside Brazil, the group's diversification program started in 1967 when Brascan purchased 1,000,000 old common shares (2,000,000 present shares) of John Labatt Limited. This purchase was made with funds received from the sale of the telephone utilities. A further 885,400 common shares of Labatt have been added since, for a 32% interest in all. In May, 1970 the Company entered the natural resource field in Canada through an agreement whereby it will invest $40,000,000 Cdn. over five years in return for a 15% interest in Elf Oil Exploration & Production Canada Ltd. This investment is being made through


BRASCAN LIMITED
(formerly Brazilian Traction, Light & Power Company, Limited)
INCORPORATED IN CANADA
Brazilian Light (100%)
(a Canadian foreign business corporation.)
BRAZILIAN INVESTMENT PROGRAM
UTILITY OPERATIONS
TELEPHONE RECEIVABLE
CANADIAN INVESTMENT PROGRAM
Banco Brascan (100%)
Peixe (68%)
Celanese (45%)
FNV (22%)
Eucatex (12%)
Garcia (22%)
Farloc (42%)
BIB (7%)
Brink's (49%)
Other Assets
LIGHT (83%)
John Labatt (32%)
Elf Canada (15%)
Mikas Oil (100%)
Other Assets
(Ownership denoted in brackets)
BRAZIL
CANADA

Mikas Oil Co. Ltd. which became a wholly-owned subsidiary of Brascan at about the same time. With the acquisition of Mikas, Brascan surrendered its long-time status as a Canadian foreign business corporation and for the first time became a tax-paying Canadian corporation.

Against this background, it is necessary in our view to consider Brascan Limited in three contexts—LIGHT, the large utility operation; the Brazilian investment program; and the Canadian investment program. But first a word about the broader considerations inherent in modern Brazil itself.

We believe Brazil to be a unique and exciting country.

Certainly, the risks must not be minimized, all the more considering that much of Latin America is in foment at the present time. However, we take heart from what has been achieved in Brazil, and the realistic way current and future problems are being tackled.

Brazil's economic position is far from typical in the continent and, more and more, it is taking its place as the largest and wealthiest community in Latin America. It is worth stressing how surprisingly strong Brazil's real economic growth has been over the past two decades—almost as if the country has a natural tendency to defy economic laws and grow regardless. In addition, the post-revolutionary period is giving an idea, on a mounting scale, of the country's true growth capabilities in a stable, progressive environment.

In assessing the shares of Brascan as an investment, it is important to recognize and attempt to evaluate the major components.

The first component is the Brazilian earnings, in turn consisting of:

- The earnings from the utility operation—which are estimated to be growing at 8% per year in real terms and which should be in the range of $2.20 per share for the year ended December 31, 1970. (Approximately one third of these earnings are remittable in dollars at the present time.)
- The income from the investment program and the income from the investment of LIGHT's surplus funds —which in our estimation should together account for about $0.15 per share in 1970. In future years this item could grow quite rapidly, chiefly because of the increasing contribution from the investment program in Brazil.

For the following main reasons we believe the multiple accorded the Brazilian earnings to be unduly low:

- LIGHT's estimated growth of 8% annually in real terms is much faster than that of most utilities in North America, particularly when it is realized that North American growth rates are expressed in nominal terms and do not allow for an inflationary factor. Yet, North American utilities sell at multiples between 10 and 20 times earnings.
- In the minds of many, particularly those who have not visited the country, Brazil represents an economy associated with high risks. While recognizing there are risks and problems, we believe our analysis of Brazil indicates a progressive and emerging economy with a huge potential.

All factors considered, we believe a multiple of at least six times the Brazilian earnings to be appropriate at the present time. This gives a value of about $14.50 based on estimated latest earnings.

The second main component in assessing the shares of Brascan as an investment is the amount owing from the Brazilian Government on the sale of the telephone utility in 1966. As mentioned previously, the total sale price of $96,000,000 in this respect is payable in instalments over a period of 20 years, with interest at 6%. Seventy-five percent of each principal instalment must be reinvested in Brazil, with the balance and all interest remaining in Canada. In assessing this receivable we believe the principal portion flowing to Brazil should be discounted by a factor in the order of 15% per year, and the principal and interest portions flowing to Canada by 10%. This would give a discounted present value of approximately $2.25 per share.

The third component in assessing the shares of Brascan is the Canadian assets which amount to approximately $140,000,000, or the equivalent of $6.00 per share. Of this, about $67,000,000 consists of the 32% interest in John Labatt Limited—effective control. The balance consists primarily of cash and equivalents, some marketable securities

and about $14,000,000 in an oil and gas program — with extensive further commitments scheduled. It should be realized that there is a positive cash flow, available for reinvestment, of about $9,000,000 per year, and that this amount could increase. The pool of Canadian assets can thus be compared to a closed-end fund, and using a conservative discount factor we believe it has a value for investment purposes in the neighbourhood of $4.50 per share.

In total, therefore, an assessment of Brascan in the manner outlined indicates that its shares have a fundamental underlying worth significantly in excess of their current value in the stock markets.

Looking beyond the present, the following factors give the shares of Brascan added potential over the longer term:

- Fundamentally, there is the growth of the Brazilian source earnings and the prospect of a gradually higher multiple being accorded to them as international confidence in the Brazilian economy grows.
- While appreciating the pitfalls of projecting ahead in a volatile world and hemisphere, we would assess Brazil's economic prospects as excellent over the intermediate term—say to 1975 when a new regime will take over. Looking beyond 1975, we feel the economy has the capacity to at least double its annual output of goods and services over the decade. In other words, we feel the chances of a sustained, if not an even greater, economic "breakthrough" must be rated well above average over the longer-term future.
- Brazil may well be destined to become one of the great nations of the world. Certainly, our study leads us to conclude that all things are possible of this progressive, energetic and vital country.
- Then there is the potential for the continuing growth of the Canadian assets consisting of the position in Labatt's, the Elf Canada oil and gas program, and the large and growing Canadian resources available for investment.
- It will also be noted that the Canadian assets do not have any direct debt outstanding against them. Consequently, at some appropriate time in the future, there is the likelihood of raising such debt. The funds derived from such an issue could be used to acquire assets which would give the Brascan stock additional potential. In addition, Brascan has $100,000,000 Cdn. of authorized preferred stock available for possible future use.

In our section on the tax status of the Brascan Group in Appendix 6 we point out the Canadian White Paper on Tax Reform could possibly result in a higher tax burden. Nevertheless, we believe this is only one of the many factors in evaluating these shares and we do not feel the White Paper proposals constitute a significant investment risk.

From a technical point of view, the shares of Brascan appear to be in a long, gradual uptrend, with good upside potential.

In conclusion, although there are risks associated with an investment in Brascan, there are also considerable rewards which on balance give the shares attractive potential in both the short- and long-term.

WOOD GUNDY SECURITIES LIMITED
February, 1971

MANAGEMENT SKETCHES

The management of the Brascan Group is divided into three sections: the management of the main holding company, Brascan Limited; the operating company, LIGHT; and the main Brazilian financial subsidiary, Banco Brascan.

Although this section only gives a very brief sketch of each member of management, it does point out several good characteristics. These are:

- The Brazilian operations are managed by Brazilians with a sprinkling of professionally qualified foreigners.
- All members of management have professional qualifications with a mixture of lawyers, engineers and chartered accountants.
- Many members of management are lifetime employees of the Group.

It is interesting to note the wide international representation on the Board of Directors which we believe is an added strength of the Brascan Group.

Members of management have a significant proprietary interest in Brascan through Jonlab Investments, Ltd. Members also hold shares arising out of the exercise of stock options. We believe both these points are positive factors in assessing the Brascan stock.

BRASCAN LIMITED

JOHN H. MOORE

President. Chairman of John Labatt Limited. Nationality —Canadian. Date of Birth—1915: Education: Royal Military College. Chartered Accountant. Joined Company in 1969. Previously he had been President & Chairman of the Board of John Labatt Limited for a number of years.

JAMES H. A'COURT

Vice-President, Finance. Nationality—Canadian. Date of Birth—1914: Education: University of Toronto. Bachelor of Arts (1937). Chartered Accountant (1942). Joined Company in 1947.

CLIFFORD E. SAWYER

Vice-President, Industrial Development: Nationality—Canadian: Date of Birth—1923: Education: Military College of Science, England, and University of London: Joined Company in 1969. Prior to joining Brascan, he was for many years associated with Ford Motor Company and had a diversity of management assignments in Canada, United States, Europe, and Latin America.

LOWELL A. ALLEN

Secretary. Nationality—Canadian. Date of Birth—1926: Education: Acadia University. Bachelor of Arts (1948). Dalhousie University. LL.B. (1952). Joined Company in 1964.

ARTHUR R. G. AMENT

Treasurer. Nationality—Canadian. Date of Birth—1907: Education: University of Toronto. Bachelor of Commerce (1928). Chartered Accountant (1933). Joined Company in 1948.

ROSS R. SUTHERLAND

Comptroller. Nationality—Canadian. Date of Birth—1919: Education: University of Toronto. Bachelor of Commerce (1940). Chartered Accountant (1947). Joined Company in 1956.

LIGHT—SERVIÇOS DE ELETRICIDADE S.A.

DR. ANTONIO GALLOTTI

President—LIGHT S.A. Vice-President & Director—Brascan Limited. Nationality—Brazilian. Date of Birth—1908: Education: Lawyer, graduated from National School of Law (Faculdade Nacional de Direito) in 1931 (Baccalaureate Course). Postgraduate Doctorate Course in 1932. Joined Rio Light in 1933.

DR. JOSÉ JOAQUIM MARQUES FILHO

Vice-President & Director—LIGHT S.A. Nationality—Brazilian. Date of Birth—1915: Education: Lawyer, graduated from National School of Law in 1933. Joined Rio Light in 1948.

DR. JOSÉ SAMPAIO DE FREITAS

Director of Operations—LIGHT S.A. Nationality—Brazilian. Date of Birth—1907: Education: Electrical Engineer, graduated from São Paulo University in 1931. Joined São Paulo Light in 1931.

DR. ANTÔNIO DE ALMEIDA NEVES

Director General Manager (São Paulo Region) LIGHT S.A. Nationality—Brazilian. Date of Birth—1908: Education: Civil, Mining & Metallurgical Engineer, graduated from Ouro Prêto Engineering School in 1932. Joined São Paulo Light in 1959.

DR. ALBERTO DO AMARAL OSÓRIO

Director General Manager (Rio Region) LIGHT S.A. Nationality—Brazilian. Date of Birth—1916: Education: Civil, Mechanical & Electrical Engineer, graduated from National School of Engineering 1938. Joined LIGHT S.A. in 1967.

DR. JOÃO DA SILVA MONTEIRO FILHO

Director of Public Relations. Nationality—Brazilian. Date of Birth—1901: Education: Mechanical-Electrical Engineer, graduated from National School of Engineering. Joined Rio Light in 1924.

RALPH E. SPENCE

Director of Finance. Nationality—Canadian. Date of Birth—1909: Education: Graduated from Cambridge University, U.K. in 1932. Chartered Accountant. (1935). Joined Brascan Limited in 1951.

MALCOLM H. MacKENZIE

Director of Engineering. Nationality—Canadian. Date of Birth—1915: Education: Electrical Engineer, graduated from The University of British Columbia in 1937. Joined LIGHT S.A. in 1957.

DR. ALEXANDRE HENRIQUES LEAL

Technical Director. Nationality—Brazilian. Date of Birth—1910: Education: Civil and Electrical Engineer, graduated from National School of Engineering in 1932. Master of Science in Electrical Engineering, graduated from Massachusetts Institute of Technology in 1934. Brazilian War Staff College in 1959. Joined Rio Light in 1935.

DR. JOSÉ RUBEM FONSECA

Director of Publicity & Information. Nationality—Brazilian. Date of Birth—1925: Education: Lawyer, graduated from National School of Law in 1948. Course in Public Administration, Brasilia School of Public Administration—1952. Graduate Course in Administration, New York University 1954. Graduate Course in Communications, Industrial Relations and Administration—Boston University, U.S.A. 1957. Joined LIGHT S.A. in 1957.

DR. RUY BESSONE PINTO CORRÊA

Director of Personnel. Nationality—Brazilian. Date of Birth—1915: Education: Lawyer, graduated from National School of Law 1936. Professor of Sociology and Social Science, graduated from University of the Federal District in 1938. Joined LIGHT S.A. in 1957.

DR. ANTÔNIO AUGUSTO DE AZEVEDO SODRÉ

Director. Nationality—Brazilian. Date of Birth—1920: Education: Graduated in History from University of Brazil—1940. Lawyer, graduated from National School of Law 1943. Joined Rio Light in 1950.

BANCO BRASCAN DE INVESTIMENTO S.A.

DR. ANTONIO GALLOTTI

President. Refer page 9.

DR. ROBERTO PAULO CEZAR DE ANDRADE

Managing Director. Nationality—Brazilian. Date of Birth—1927: Education: Lawyer, graduated from Pontifical Catholic University of Rio de Janeiro in 1950. Joined LIGHT S.A. in 1952.

PEDRO HORÁCIO JOSÉ MARIA LEITÃO DA CUNHA

Director. Nationality—Brazilian. Date of Birth—1933: Education: Business Administration—Occidental College, Los Angeles, California and Project Analysis Course in the Ministry of Planning. Joined Banco Brascan in 1965.

ALEC T. COUSINS

Director. Nationality—British. Date of Birth—1929: Education: Chartered Accountant—England. Joined LIGHT S.A. in 1969.

BRASCAN LIMITED—BL

Ordinary Shares—Stock Trading Record, 1960-70

The Ordinary Shares are also listed on the London Stock Exchange and Brussels Bourse.

The Shares are also traded on the American Stock Exchange and several U.K. Exchanges.

RORAIMA
Boa Vista
Rio Branco
AMAPÁ
Macapá
MARAJÓ ISLAND
Japura R
Rio Negro
Manaus
Belém
São Luis
Amazon R
Tapajós R
Madeira R
AMAZONAS
PARÁ
MARANHÃO
Teresina
Fortaleza
CEARA
RIO GRANDE DO NORTE
Natal
João Pessoa
PARAÍBA
Recife
PERNAMBUCO
Maceió
ALAGOAS
Aracaju
SERGIPE
PIAUÍ
ACRE
Rio Branco
Pôrto Velho
RONDONIA
MATO GROSSO
GOIÁS
Tocantins R
São Francisco R
BAHIA
Salvador
ATLANTIC OCEAN
Cuiabá
Brasilia
Goiânia
Paraguay R
MINAS GERAIS
Belo Horizonte
ESPIRITO SANTO
Vitória
SÃO PAULO
Rio de Janeiro
São Paulo
RIO DE JANEIRO
GUANABARA
Equator
PARANÁ
Curitiba
SANTA CATARINA
Florianópolis
RIO GRANDE DO SUL
Pôrto Alegre
Lagoa dos Patos
BRAZIL
N
National Capital
Federal District
State Capital
National Boundary
State Boundary
Pan American Highway

PART ONE—BRAZIL

More than four fifths of Brascan's assets are located in, and roughly the same proportion of its earnings are derived from, Brazil. Therefore, to assess the investment merits of Brascan, it is essential to assess the prospects for Brazil.

Taking its name from the red dye-wood, pau-brasil, the Republic of Brazil is a unique land—in our view, one of the most exciting, dynamic and promising countries in today's world.

We do not underestimate Brazil's weaknesses and the gravity of its basic problems; among them the population explosion, the gap between rich and poor, the primitive agricultural and rural sectors, the still-excessive inflationary pressures, and insufficient education and manpower-training facilities.

At the same time, we cannot fail to be impressed by Brazil's achievements and the unfolding development of its vast resources. Fifty years ago Brazil was an underdeveloped, semi-feudal, agrarian society, unequipped for the modern age. Today, it is a powerful, burgeoning nation.

In money terms, the Brazilian economy is currently producing a comparatively small $35 billion worth of goods and services annually. However, more significant at this stage is the economy's natural propensity to grow and its mounting growth momentum. Since 1950 gross domestic product has more than tripled in real terms. Since 1945 the real growth rate has averaged 5 to 6% annually—this over a period that has included political turbulence, economic breakdown, revolution, fluctuating world commodity markets, and spiralling inflation. Few countries can match these long-term rates of growth.

Since that great turning point in contemporary Brazilian history, the Revolution of March 31, 1964, the growth is even more vividly apparent. Including an initial three years of severe austerity under the military regime that took over then, the real growth has averaged 6 to 7% annually. More recently, the rate was 8% in 1968 and 9% in 1969, and a similar pace is believed to have been maintained in 1970.

Greatness has been forecast for Brazil ever since its discovery by Portuguese navigators late in the Fifteenth Century. In the Twentieth Century the economic "breakthrough" has been achieved, and is continuing, despite many past handicaps.

ABOUT THE COUNTRY

In physical terms, Brazil is a giant. It occupies approximately half the South American continent and accounts for one third of the region known as Latin America. With an area of 3.3 million square miles, it has three times as much territory as Argentina and more than four times as much as Mexico, the other giants of Latin America. There are only four nations in the world larger than Brazil—Soviet Russia, China, the U.S.A. and Canada (3.6 million square miles).

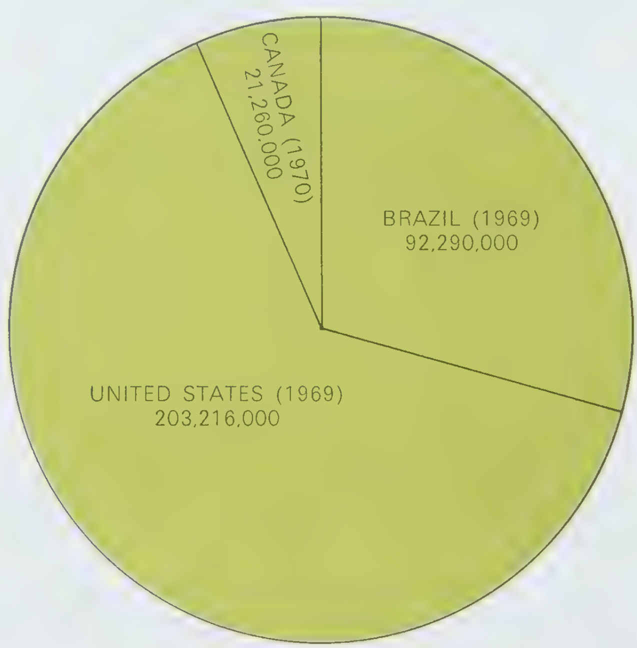
In terms of population, 92 million inhabitants rank Brazil eighth in the world, after China, India, Russia, the U.S.A., Indonesia, Pakistan and Japan, but at 2.7% annually it is probably growing faster than most of these. It is far and away the most populous country in Latin America. For instance, there are two Brazilians for every Mexican, and four for every Argentinian.

Unlike most of its neighbours, Brazil is Portuguese-speaking as opposed to Spanish. The differences between the two heritages and cultures deserve emphasis. So do the variety of ethnic groups making up the Brazilian population. Brazil is a pluralistic, cosmopolitan "melting pot" of every imaginable race, colour and creed.

Brazilians are basically an easy-going, moderate, optimistic people, with a talent for human relations. There is little class feeling. The concept of a single nation has endured for four centuries and national pride runs high. Brazilians are not violently inclined. There is no death penalty, their revolutions are bloodless, there are no wars of conquest in Brazil's history. Apart from World War II, its one real war, against Paraguay, took place 100 years ago.

When given the opportunity, the Brazilian learns quickly, works hard, is ambitious, takes pride in his work and has a high sense of commercial morality. Notwithstanding the military regime of the past six years, and the preceding lengthy Vargas dictatorship, the country has a long history of democracy and the average citizen values democratic ideals.

Population



Brazil is a land of extreme contrasts and contradictions, with great regional diversity. The south is modern, while the north remains largely traditional. Most of the natural wealth of the country is in the interior, but the great bulk of the population lives along the coastal strip. Brazil has the largest rural population in Latin America, yet perhaps as much as four fifths of its land remains uncultivated.

Brazil's climate, geography, demography, and division of wealth provide further examples of these extremes. (See Appendix I for additional details.)

Brasilia, the new and grandiose national capital, built on a remote plateau in the interior state of Goias in less than a decade, was a conscious attempt to open up the country and draw development away from the triangle formed by the cities of Rio de Janeiro, São Paulo, and Belo Horizonte.

São Paulo is the dynamo as well as the industrial workshop of the continent. With 6.5 million people it is the eighth-largest and fastest-growing city in the world. Three hundred miles up the coast is Brazil's second city, Rio de Janeiro, with 4.5 million people and thriving banking, commerce, light industry and world-famous beaches. Because of a high birth rate and declining infant mortality, Brazil is a young country. Half the people are under 25; 70% under 40—and it is growing younger. This fact alone may render solution of its major problems more difficult. In addition, a large proportion of the people of working age are illiterate or considered otherwise incapable of training, and are outside the labour force for all practical purposes.

Yet even so, there is great hope for Brazil's future. For example, there is its natural wealth. It is no exaggeration to say that Brazil is fantastically endowed by nature. It has unlimited hydro-electric potential; it has as much as one third of the world's iron ore resources, not to mention an abundance of other minerals such as bauxite, manganese, diamonds and gems (though lacking somewhat in the non-ferrous metals); its rivers and coastline teem with fish; it has great untapped timber stands.

Until comparatively recently this wealth of natural resources had remained largely unexploited. Rather, Brazil's economic history had been a long, volatile sequence of "boom and bust" dependence on single commodities—red timber, sugar, tobacco, gold, cotton, rubber and coffee. Today, it is a different matter and the diversification of the Brazilian economy through development of its many resources is proceeding apace. In particular, the 1970s promise to see the large scale development of Brazil's extensive mineral wealth.

ECONOMIC EVOLUTION

Four events stand out as particularly significant in tracing Brazil's economic evolution—the abolition of slavery in 1888, the coming to power of Getúlio Vargas in 1930, World War II and the Revolution of March, 1964.

The emancipation of the slaves proved the ruin of the old-style coffee barons and, in so doing, formed the nucleus of the future working class and triggered the beginning of industrialization.

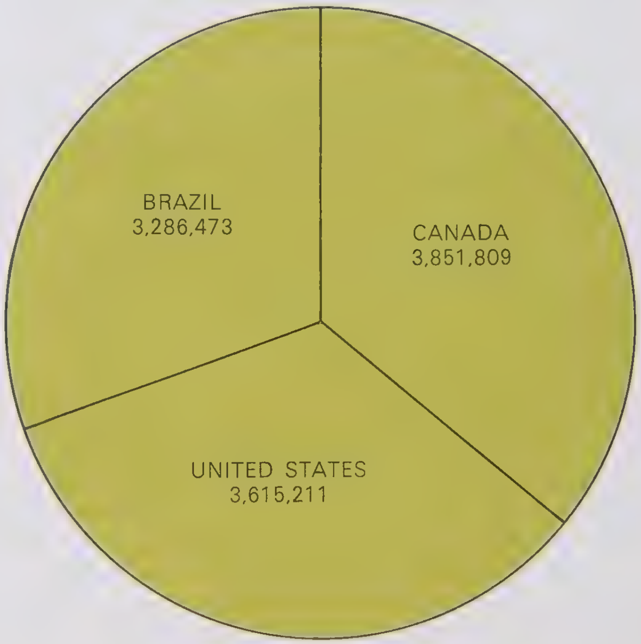
Vargas, the benevolent dictator who seized power in 1930, and ruled until 1945 and then again from 1951 until 1954, awakened in the urban masses a sense of their own well-being and political importance. His sweeping social welfare reforms, assuring a great number of rights to workers, were to have far-reaching repercussions, some of them economically damaging. On the positive side, the Vargas era saw a start in developing Brazil's own industry, improving its agricultural techniques, building roads and power projects, undertaking low-cost housing development, surveying the country's natural resources, and so on. In these ways, it provided the first steps in Brazil's economic awakening.

World War II added to the impetus to industrialize and accommodate economic needs within Brazil. During and after the War (Brazil sided with the Allies and received U.S. financial aid), a number of consumer-geared, light industries including textiles, newsprint, household appliances, chemical products and automobile assembly, sprang up. In addition, Brazil's first steel complex was completed and improvements were made to the country's railway, highway, harbour and airport facilities.

Further industrialization and consumer orientation of the economy took place during the era of Juscelino Kubitschek, from 1955-61.

The breakdown that preceded the 1964 Revolution and the magnitude of the subsequent recovery are vitally important. Brazil was on the brink of economic collapse. The progress of the previous 30 years was threatened. The government of João Goulart was proving in-

Area in Square Miles



creasingly incapable of controlling a deteriorating situation. Inflation was skyrocketing at 100% annually. Food was in short supply. Basic services were breaking down. There were constant strikes. Credit and liquidity were scarce. Private investment had virtually ceased. Disengagement of foreign capital threatened. As social unrest increased, fears of a Communist revolution grew. Something had to "give", and it did. On March 31, the military took over the country in a virtually bloodless coup. Castello Branco, a former army chief of staff noted for his integrity, was named president.

The initial objectives were to restore law and order, remove subversion and corruption, and take emergency economic action. This entailed discipline, austerity, and wage and price controls. They were difficult years. But even before Castello Branco's term expired in March, 1967 the reforms were beginning to be positively felt.

Since 1967, first under the regime of Arthur da Costa e Silva to 1969, and now under President Emilio Garrastazu Medici, Brazil's economic growth has been among the highest in the world, averaging better than 7% annually in real terms, including 8% in 1968 and 9% in 1969. That pace was maintained in 1970, and 7 to 9% is seen by the Ministry of Planning as a realistic average annual growth rate to 1974. Inflation has been cut to a 19% annual rate, and the device of Monetary Correction utilized to make it more "liveable". The budget deficit has been cut to less than one percent of gross domestic product and is being readily financed out of genuine savings. What is more, these improvements have been achieved without any excessive increases in real taxation, and with due recognition of the private capital sector, the profit motive and the role of foreign investment.

Another key development in the post-revolutionary period was the implementation of a far-sighted and compatible foreign trade policy. Import and debt-servicing needs had to be met; the chronic deficit in the balance of payments could only be remedied through exports; and a strengthening external sector was a prerequisite to achieving self-sustaining internal growth.

Exports have been expanded in impressive fashion, assisted by the adoption of what is tantamount to a flexible exchange rate since August, 1968 and by a fortuitous turn in the world coffee market.

By value of world trade, coffee currently ranks second only to oil among commodities. Brazil accounts for over half the world's coffee production and coffee, in turn, accounts for a third of Brazil's total exports. Hence, though no longer so dominant, coffee remains vital to Brazil. A combination of poor harvests and rising demand led to the rapid disappearance of past surpluses in world coffee stocks, and prices rose to their highest levels since the International Coffee Agreement of 1962.

INDUSTRIALIZATION

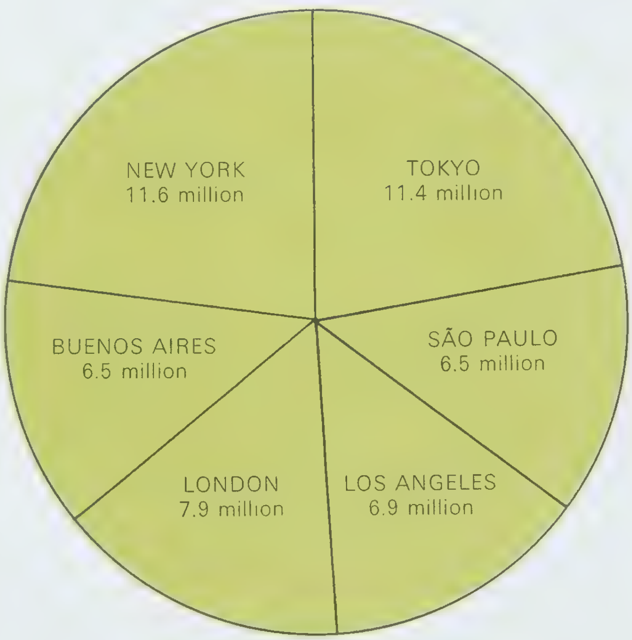
One dynamic factor is Brazil's remarkable industrialization. No longer is Brazil an agrarian-based, underdeveloped society, or merely a country with some developing light industry. Today, industrial production accounts for some 30% of total domestic product and the ratio is continually rising. In the wake of industrialization has come far-reaching social change, including urbanization and the emergence of a growing middle class.

The industrial drive that was born in the 1930s, took root in the War years and gathered pace in the 1950s has taken off with a vengeance in the improved environment of the post-revolutionary period.

Chiefly manifest in the São Paulo area, Brazil's industry is truly a modern miracle. A multitude of factories—including many world-famous names—produce a diverse product range encompassing all types of industry.

The automobile industry is perhaps the broadest expression of Brazil's industrialization. Before the War some assembly work was undertaken. In the second half of the 1950s, if world automobile manufacturers wished

Some of the World's
Largest Cities



to enter the market they had to manufacture their products on the scene and include a high degree of domestic content in them. General Motors, Ford, Volkswagen, Chrysler and Mercedes-Benz were among the leading manufacturers who entered Brazil on these terms. Within five years, production had risen to 100,000 units annually and in 1969 the 350,000 mark was passed. In recent years the rate of growth has exceeded 20% annually. Domestic content in these vehicles now runs over 90%.

Industrialization has also been characterized by growing sophistication and depth. Heavy industries are develop-

ing rapidly. For example, the steel industry has made great strides and state-owned Volta Redonda is now the largest iron and steel complex in Latin America. Brazil is once again constructing her own ships, the country's machine-tool capability is improving, and so is its ability to manufacture specialist equipment for the electrical power and railroad industries, for example. Virtually all petroleum needs are now refined domestically (Brazil is about 50% self-sufficient in petroleum) and a petrochemical industry is being developed.

An adequate infrastructure for servicing growing industrial and commercial needs is progressing. The main form of transportation is trucking and the highway system has been improved enormously in recent years. During the past decade, various inefficient railroads have been merged into a single system under the state-owned "RFF" and the whole system has already been significantly upgraded. Varig, the national airline owned by its employees, rates highly by world standards. The Urubupunga hydro-electric complex, currently under development on the Paraná River, is the largest of its type in the Western world and should go a long way to remedying power shortages once it is fully on stream in the middle 1970s. The country's first nuclear power plant is being planned near Rio. Deficiencies remain, but Brazilian infrastructure development is proceeding swiftly.

CAPITAL INVESTMENT & PRIVATE ENTERPRISE

Brazil's industrialization and economic advancement has required adequate capital, and foreign capital has had an important role to play.

Total foreign investment (including debt capital) in Brazil is currently estimated at about $15 billion, of which perhaps half emanates from the United States. Britain, Western Europe and Japan are also important sources. After wavering in the uncertain period before and after the Revolution, the flow of foreign capital has recovered strongly as investors—the International Bank for Reconstruction and Development ("World Bank"), other agencies, private institutions, business corporations and individuals alike—draw encouragement from what they see. The importance of foreign capital and the need to treat it equitably is clearly appreciated by the Brazilian authorities. This realization is apparent in the laws covering the registration of foreign capital, the servicing of foreign debt and the remittance of profits. Frequently, foreign investment is made in partnership with Brazilian enterprises, whether government or private. Thus, many of the World Bank loans are in conjunction with concurrent investments by state-run agencies. A typical example of such collaboration is the huge joint venture project of U.S. Steel and the government-owned Rio Doce to develop iron ore deposits in the Amazon basin at an estimated cost of $400,000,000. Rio Doce will own 51% and have the right to market the ore.

Official encouragement is being given to the formation of domestic capital, with particular reference to depressed regions and designated industries. The internal generation of capital is growing as disposable incomes rise and the man on the street gains confidence in the purchasing power of the cruzeiro and the inflation-adjusted (i.e. monetarily corrected) financial instruments now available to him.

There has been much progress in the financial sector of the economy as well. Under the auspices of the recently-formed central bank, mergers have reduced the number of banks considerably and this has helped to lower costs. The functions of the various financial institutions have been spelled out so that the banks concentrate on banking in the broadest sense and in their lending essentially make short-term loans; the finance companies are reverting back to financing consumer durable sales (especially automobiles); the investment banks are becoming more oriented toward medium to long-term financing and underwriting; and the mutual funds are concerned with the equity end of capital investment. Especially significant in this regard, are the "157" Mutual Funds, set up to channel risk capital with the objective of furthering the equity market and "opening" ownership of companies to the public. Finally, mention should be made of a newly formed market in short-term treasury notes which is designed to permit greater flexibility in the investment of short-term funds.

There is clear recognition of the role of private enterprise. Areas of government monopoly are relatively few. There are numerous instances of public and private enterprise operating in the same industry, and outside minority interests are often held in state enterprises. The petroleum industry is a good example. Petrobrás, the national petroleum monopoly, co-operates in several areas with the Brazilian subsidiaries of major world oil companies. Petrobrás and private enterprise are associated in the development of a petrochemical industry. A significant proportion of Petrobrás' capital is held by the investing public, and its shares are listed on the stock exchanges. The pattern is somewhat similar in the electrical power industry. New generating capacity is built by state-owned enterprises and most companies distributing electricity are state-owned—but the key distributor in the Rio-São Paulo region, LIGHT, is privately owned.

POLITICAL ASPECTS

The most important factor in Brazil's resurgence has been the seven years of political stability following the Revolution in 1964. Democratic ideals run deep, yet Brazil is a country where a tradition of stable political parties simply does not exist. Today, political control remains firmly in the hands of the military. Yet, Brazil remains a strong regime with a difference. It is less a government of personalities and more one of institutions and specialists. Various departments are headed by specially appointed, non-military experts. These "technocrats" effectively run and plan the economy of the country. Persons such as Delfim Neto, the renowned Minister of Finance, are relatively young and capable.

The military leaders are more concerned with building a country than their own power. Simply stated, today in Brazil there is order and progress where seven years ago there was chaos. Brazil's economic accomplishments in so short a period, after such a complete breakdown, ordinarily would have taken decades—if not generations.

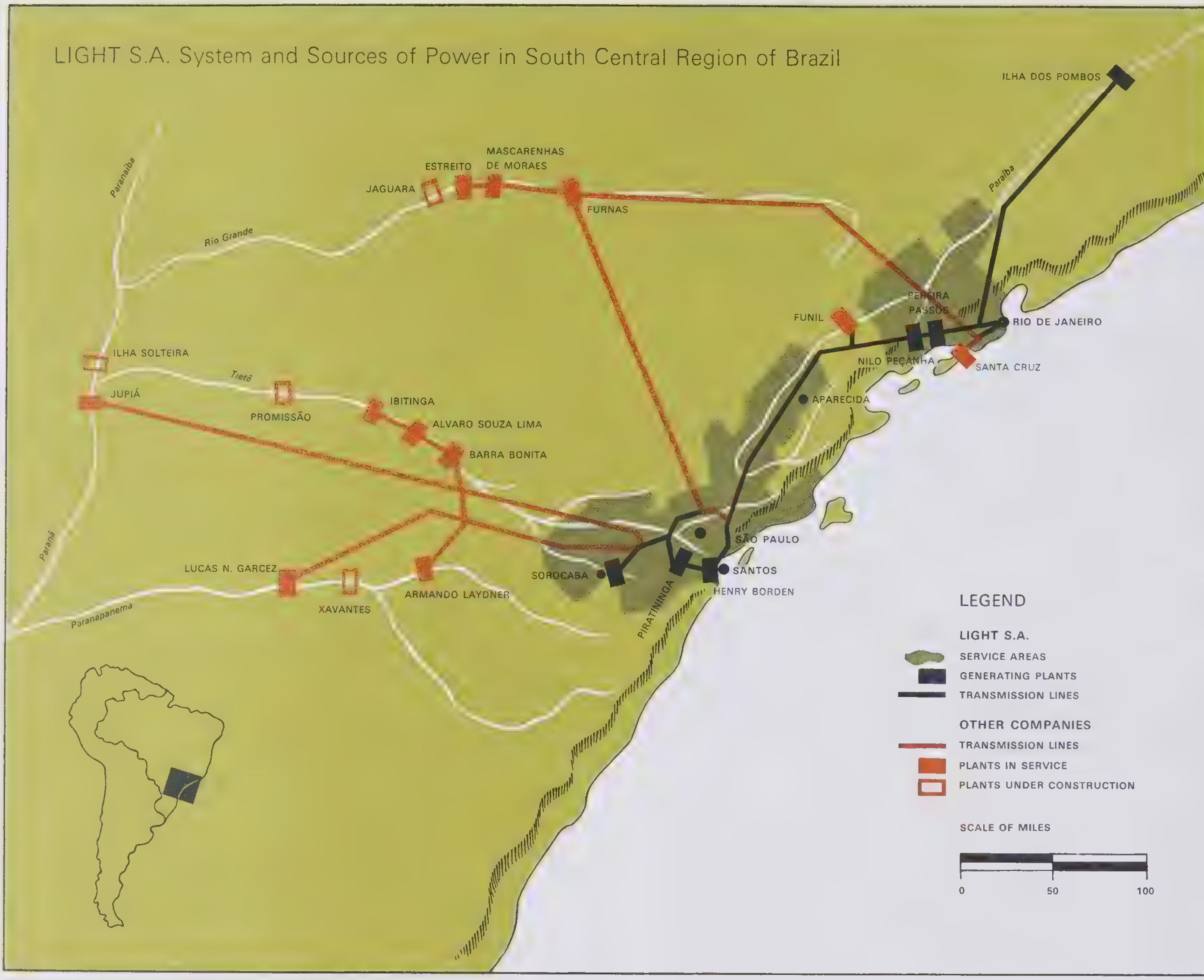
But this type of strong government cannot remain indefinitely. This seems to be appreciated by those in power, and the elections in November, 1970 represented at least a partial step towards restoring political democracy. Two parties representing government and opposition were set up. The Congress, Senate and State governors, were chosen in the freest election in years. Moreover, President Medici has undertaken to try to return to fully democratic elections when his term of office expires in late 1974.

POLITICAL—ECONOMIC LINKS

The link between economics and politics is very real in Brazil. If the economic side continues to improve, it is logical to expect an easing on the political side—given the military regime's desire to do so. However, if incomes and living standards stagnate or decline, the political risks will probably increase, particularly in depressed regions like the Northeast.

It is important to remember how far Brazil still lags behind other major nations in terms of the average well-being of its peoples. Brazil's gross domestic product divides down to roughly $400 per capita. Though there are obviously differences in the purchasing power of the respective currencies, comparable figures in Argentina and Mexico are $700 and $500 respectively. And fully half the Brazilian population lives below this average figure.

In this regard, however, the setting up of government agencies to assist in the economic development of the depressed Northeast and Amazon, the fiscal and tax incentives to invest in regions like these, and conscious attempts to reform and improve Brazilian agriculture illustrate a willingness to deal with potentially explosive problems before it is too late.



LIGHT S.A. System and Sources of Power in South Central Region of Brazil
ILHA DOS POMBOS
MASCARENHAS DE MORAES
ESTREITO
JAGUARA
FURNAS
Paranaíba
Rio Grande
Paraíba
FUNIL
PEREIRA PASSOS
RIO DE JANEIRO
NILO PEÇANHA
SANTA CRUZ
ILHA SOLTEIRA
Tietê
JUPIÁ
PROMISSÃO
IBITINGA
ALVARO SOUZA LIMA
BARRA BONITA
APARECIDA
SÃO PAULO
SANTOS
HENRY BORDEN
PIRATININGA
SOROCABA
LUCAS N. GARCEZ
XAVANTES
ARMANDO LAYDNER
Paraná
Paranapanema
LEGEND
LIGHT S.A.
SERVICE AREAS
GENERATING PLANTS
TRANSMISSION LINES
OTHER COMPANIES
TRANSMISSION LINES
PLANTS IN SERVICE
PLANTS UNDER CONSTRUCTION
SCALE OF MILES
0
50
100

PART TWO—
LIGHT—SERVIÇOS DE ELETRICIDADE S.A.

THE COMPANY

LIGHT—Serviços de Eletricidade S.A., or "LIGHT", is the 83.3% owned electric power subsidiary of Brazilian Light Limited. Brazilian Light is a foreign business corporation under Canadian tax law and is in turn a wholly owned subsidiary of Brascan Limited.

With invested capital and sales exceeding the equivalent of $700,000,000 and $300,000,000 respectively, LIGHT is the largest private company in Brazil. It is the third largest in terms of net worth. Its concession areas include the cities of São Paulo and Rio de Janeiro and surrounding regions, where commercial and industrial development, (particularly in São Paulo), are truly remarkable. In short LIGHT, with more than 3,000,000 customers in a service area whose population numbers some 16,500,000 must be viewed as a fundamental participant in the progress of both Brazil and its most prosperous regions.

Operating revenues received by LIGHT during 1969 totalled $302,692,000, a 17.9% increase from $256,834,000 in 1968. Sales of energy in 1969 amounted to 16,880 million kilowatt hours (kwh), up 10.1% from 15,329 million kwh sold in 1968. Operating income reported in this period increased 4.4% to $69,269,000 from $66,357,000. Net income increased 2.5% to $53,759,000 from $52,466,000. These profit figures are somewhat misleading as billings to customers were insufficient in 1969 to meet all service costs and the shortage (amounting to $4,278,000) was recovered in 1970 and will be included in income of that year. If this shortage had not developed, the gains in operating income and net income would have been 9.7% and 9.2% respectively.

Cash dividend payments made to shareholders of LIGHT in 1970, for the year 1969, totalled $33,089,000, an increase of 20.3% from $27,500,000 for the year 1968.

The operating revenue, operating income, net income and dividend figures cited above represent cruzeiros expressed in dollars. They relate to LIGHT, and should not be confused with the corresponding figures which appear in the group's consolidated financial statements. They reflect such items as interest on debt of LIGHT to Brazilian Light Limited, as well as dividends paid by the former to the latter, but exclude certain income tax and other provisions recorded by Brazilian Light Limited (but not by LIGHT) as year-end adjustments.

ELECTRIC POWER IN BRAZIL & THE ROLE OF LIGHT

Brazil is an enormous country with an abundance of rivers, most of which are ideal for the generation of hydro-electric power.

During the ten year period of 1960-70 Brazil's installed generating facilities increased from 4,800,000 kilowatts (kw) to 10,350,000 kw. By comparison, Ontario Hydro had installed generating capacity of 10,200,000 kw at the end of 1969.

Thermo-electric facilities now account for less than 25% of installed capacity and this appears unlikely to change significantly until nuclear plants start coming on stream after 1975. The total hydro-electric generating potential for Brazil is estimated at 150 million kw.

LIGHT began in São Paulo and Rio de Janeiro, and has confined its operations to these centres and the surrounding region. This part of Brazil, the South Central Region, has experienced intense development and, from the economic point of view, has been the hub of the country.

LIGHT, as both a generator and distributor of power, and especially the latter, in the concession areas of Rio and São Paulo, is an integral part of the power grid that has developed to provide for the energy requirements of the South Central Region. The principal companies with integrated systems forming this power grid include LIGHT, FURNAS, CESP, CPFL and CEMIG. With the exception of LIGHT, each company in the grid is a subsidiary or associate of the government-owned company, Eletrobrás. The power grid has been further strengthened through a formal "Agreement for Interconnected Operations" established during 1969. This grid permitted record levels of power consumption in 1969 in spite of the exceptionally low levels of water seen in certain watersheds for much of the year.

FURNAS, CESP and CEMIG each have big hydro-electric projects in operation, under construction or planned. As these successively come on stream there should be a reasonable amount of spare capacity before 1975. The amounts to be added by each company in the years 1970 to 1975 are expected to be as follows:

	KW
FURNAS - - - - - - -	2,000,000
CESP - - - - - - - -	2,304,000
CEMIG - - - - - - -	824,000
	5,128,000

To put this figure in perspective, at the end of 1969 the generating capacity of the South Central Region was 7,608,000 kw. Included in these planned projects is a portion of the very large Urubupunga hydro-electric scheme on the Paraná River. When all three stages of this scheme are completed in 1978 it will be one of the biggest power complexes in the western world, with a capacity of 4,600,000 kw. These projects will be instrumental in overcoming power shortages in the South Central Region and will permit a considerable strengthening of the power grid now operating.

LIGHT's own generating facilities are capable of producing 2,121,000 kw or about 28% of the installed power for the region, and about 20% of that for Brazil.

DEMAND FOR ELECTRICITY—REVIEW & OUTLOOK

Until the end of 1974 the demand for electric energy is expected to grow at an annual rate of 11%, reaching about 60 billion kwh.

In LIGHT's areas the rate of growth is expected to be somewhat less, about 8%, with sales reaching 24.8 billion kwh in 1974. The lower rate for the largest urban centres reflects the determined efforts of the Brazilian Government to stimulate the development of other areas.

In the period 1965 to 1969 the breakdown of energy sold by LIGHT was as follows:

(millions of kwh)	1965	1966	1967	1968	1969	Annual Rate of Growth
Residential	2,642	2,862	3,145	3,504	3,882	10.1%
Commercial	2,032	2,149	2,266	2,554	2,827	8.6%
Industrial	5,313	6,131	6,262	7,209	8,090	11.1%
Public Utilities and Others	1,654	1,655	1,972	2,062	2,081	5.9%
TOTAL LIGHT	11,641	12,797	13,645	15,329	16,880	9.7%

Industrial load increased from 45.6% of the total in 1965 to 47.9% in 1969, or 11.1% a year. Residential growth was just over 10% per annum, and with the growing industrialization of Brazil and the attempts to raise the standard of living we expect Industrial and Residential sales to continue as the fastest growth categories.

Total electric energy sold in Brazil for the same period has grown at an annual rate of 9.9% and is shown below:

Total Brazil (millions of kwh)	24,300	26,500	28,000	31,400	35,400	9.9%

OPERATIONS & OPERATING FACILITIES

The southern part of Brazil is a great plateau cut by several major rivers, a combination of water and topography ideal for hydro-electric development, and of which the Company has taken full advantage.

The area served by LIGHT is subject periodically to severe drought. This gives rise to supply problems which have been resolved by interconnection of the systems in the South Central Region and by the construction of a number of steam plants. One of these is LIGHT's Piratininga plant, with a capacity of 410,000 kw. When river flows are high Piratininga is operated for peaking purposes. When drought occurs, as happened in 1968-69, it becomes an important source of energy.

GENERATING CAPABILITY OF LIGHT

RIO DE JANEIRO REGION	Type	Total Capacity KW
Nilo Peçanha	Hydro	330,000
Fontes	Hydro	154,000
Pereira Passos	Hydro	93,500
Ilha dos Pombos	Hydro	162,000
Other		13,614
Total—Rio		753,114
SÃO PAULO REGION		
Henry Borden	Hydro	864,000
Itupararanga	Hydro	56,124
Piratininga	Thermal	410,000
Other		38,119
Total—São Paulo		1,368,243
TOTAL—Both Regions		2,121,357

The generating capacity of LIGHT facilities has remained static at slightly more than 2,121,000 kw since 1963, a reflection of the Brazilian Government's decision to assume the responsibility for new generating facilities.

LIGHT is now purchasing an increasing portion of its power from FURNAS, a subsidiary of Eletrobrás, and CESP, a São Paulo State company, associated with Eletrobrás. Facilities for the transmission to the terminal points are provided by the Government companies, LIGHT only being responsible for the transmission plant within its concession areas, and the trunk system that connects the areas of Rio and São Paulo.

Because LIGHT is becoming increasingly dependent on others for its power, a growing portion of service cost is beyond the control of management, although this serves to reduce the substantial capital requirements which would otherwise be needed. LIGHT's expansion emphasis is very much in the distribution phase, which has consumed the greatest amount of capital in the recent past (see following table). In the next five years more than 70% of total plant expenditures are expected to relate to distribution and customer services.

LIGHT FACILITIES

	1965	1966	1967	1968	1969
Capacity of generating plants (kw) - - - -	2,146,823	2,146,823	2,147,813	2,121,357	2,121,357
Transmission lines (miles of circuit) - - - -	2,504	2,534	2,650	2,668	2,779
Distribution network lines (miles of wire) - - -	105,021	110,184	113,178	121,406	132,350
Transformer capacity (kva thousands) - - - -	2,285	2,504	2,846	3,190	3,564

In the period shown, generating capacity decreased slightly, transmission was up a total of 11%, distribution lines increased 26% and transformer capacity gained 56%. At the same time, sales of electric energy rose 45%.

SERVICE AT COST

New regulations establishing "Service at Cost" became effective in 1965.

Service at cost involves setting customers' rates for electricity at a level that will produce sufficient operating revenues to meet operating expenses necessary to serve the customers, including corporate profits taxes, provision for depreciation and reversion, and remuneration at 10% on the rate base. The main components of rate base are plant in service, (at net book value in cruzeiros, corrected to offset the depreciation in the internal value of the currency), and working capital.

Under service at cost there are three types of rate adjustments that can be effected:

(a) Automatic adjustments to cover rises in certain specific expenses, brought on by inflation. These include wages, purchased power, fuel oil and increases in the cost of servicing foreign debt.

(b) Annual adjustments to offset the effect of a decline in the internal value of the cruzeiro on the rate components of depreciation, reversion and remuneration.

(c) General revisions that update rates on the basis of estimates of costs for the coming rate period.

All rate adjustments that have been approved to date under the service at cost regime are provisional as they relate to the Company's own calculation of the rate base.

For several years now, a Government Commission has been engaged in determining the physical existence and cruzeiro cost of the plant in service. This study, known as the "Tombamento", has been a long and involved process. The "Tombamento" for assets in the Rio Region, as at December 31, 1964, was completed in 1969 and formally approved by the conceding authorities in June, 1970. The commission is now up-dating its findings to the latest year, as well as completing the "Tombamento" for the São Paulo Region. Completion of this work should be relatively swift as most of the principles for valuation were established during the work on the Rio system.

It is of particular significance that the cruzeiro value for the plant in the Rio region, now confirmed by the Commission, was within one percent of the book value used by the Company. It is worth commenting at this point that, contrary to many popular beliefs in North America, there is a distinct sense of co-operation between the regulatory authorities in Brazil and the Company. The relations between each seem to be more constructive than those which often seem to exist between Canadian or United States utilities and their regulatory authorities. We sense that there is a good deal of mutual respect and understanding between LIGHT and the Government.

Rates based on service at cost do not include an allowance for items that are charged against operating income such as interest on debt, foreign exchange adjustments, withholding taxes on income paid to residents outside Brazil or any costs not considered essential to the provision of electric service.

Three of the components of cost of service relate to plant in service, namely depreciation, reversion and re-

muneration, and therefore some discussion of plant is necessary before commenting on these.

Plant in service, for rate-making purposes, means the cost to LIGHT of the fixed assets used in providing service, expressed in historic cruzeiros. To avoid the shrinkage that would occur under inflationary conditions these plant values are written-up annually through the process of Monetary Correction. (A table of Monetary Correction coefficients is given in Appendix 2.) These coefficients are applied to the various plant components according to the year of acquisition. Similar corrections are made to the reserve for depreciation to arrive at the corrected value of net plant. The increase in the value of net plant, when entered in the accounts of the Company, is offset by simultaneous write-ups of the cruzeiro book value of foreign debt (using the exchange rate at the end of the year) and of the reversion reserve. The balance of the increase in net plant is carried to shareholders' equity and capitalized in cruzeiros.

Depreciation, allowed for rate-making purposes, is calculated on the historic cost of depreciable plant, and on the related Monetary Correction. The annual rate for depreciation is now 3%: however, in the years 1965 and 1966 the rate was 5%, a temporary measure, to provide funds for the improvement and expansion of the distribution system.

The reversion charge, included in the rates to customers, is calculated in the same way as depreciation. Reversion is taken at 3% of the historic cruzeiro cost of the fixed assets (together with related Monetary Correction) that revert to the conceding authorities at the end of the concession upon payment to the Company for their value.

The total amounts provided annually for reversion are not equal to those of depreciation, because depreciable plant and plant revertible with indemnity do not exactly coincide.

The concept of reversion tends to be vague as many of the concessions make no reference to it, but this should be clearer when the rate base work is complete and the concessions are revised. Reversion is an important part of rates as it provides a pool of capital each year ($19,635,000 in 1969) that is available for expansion. Facilities built with these funds become a part of the rate base and as such are entitled to remuneration at 10%. Interest is charged on the monetarily corrected value of accumulated reversion at 6% per annum and this money is also made available for reinvestment in plant. The net result is a "pay as you build" system of financing plant in contrast to the more common "build now, pay later" system so common in North America. Reversion charges of course result in higher power rates but this principle fits Brazilian circumstances reasonably well at the present time.

The remuneration allowed in any year is 10% of the rate base at the end of that year. Remuneration is the final component of cost of service and rate base for this purpose consists of:

(1) Plant in service at its original cruzeiro cost (other than plant financed by customer contributions) monetarily corrected; plus
(2) Working capital including cash, stores and two months of customers' billings; minus
(3) The depreciation reserve, monetarily corrected; and minus
(4) The reversion reserve that has *not* been invested in plant, monetarily corrected.

The composition of rate base here is, with few exceptions, the same as that seen in most North American utility companies. Perhaps the most significant difference is in working capital. All cash is included and in this context it takes in bank balances and near-cash items such as government notes held. Stores, as a part of working capital are allowed up to a maximum of 3% of plant in service. Beyond these items the rate base is quite straightforward.

General rate revisions are based on anticipated costs for the coming tariff period and the estimated rate base at the end of that period. These estimates are filed with the regulatory authority as part of the application for rate revision. New rates come into force after review of the application and approval by the regulatory authority.

Because rates are based on estimates there will always be, in any one year, some surplus or shortfall. If there is a surplus, (i.e. billings to customers exceed cost of service), this amount must be deposited in an official bank and is used to compensate subsequent deficiencies. The surplus billings are not included in the consolidated earnings for that year. If there is a shortfall in revenues and remuneration is less than 10%, this amount is recoverable in future rates and is taken into income when received.

Since service at cost was introduced there have been shortfalls in 1965 and 1966, and these were recovered in 1966—$5,100,000 and 1967—$4,300,000. In 1967, after allowing for these recoveries, there was a surplus and this was taken into account when rates for 1968 and 1969 were fixed. At the end of 1969 there was a deficiency and this is being made up in the rates for 1970.

The rate base at any year-end is increased by any accumulated deficit of earnings and reduced by any accumulated surplus.

CONDITION OF FACILITIES & OPERATING PROBLEMS

The major portion of the generating capacity of LIGHT has been built since the Second World War and can be described as fairly modern. It is worth noting that the facilities appeared to be well maintained, spotlessly clean and the sense of pride displayed by senior operating personnel at each plant was very noticeable and should not go unmentioned.

Our own inspection of the operating facilities of LIGHT leads us to conclude that they are well maintained. Discussions with operating personnel revealed some weak

areas and operating problems that we had not recognized and made us conscious of efforts to up-grade the system.

Under the terms of the Collateral Trust Indenture for the World Bank loans, Stone and Webster Engineering Corporation, as an independent engineering concern, reports on the maintenance of property and the depreciation accrual policies and practices of LIGHT. In their latest report, dated February 28, 1969, they state:

> *"In our opinion the electric property of the Company has been adequately maintained since December 31, 1965, the end of the period covered by our last certificate, under the circumstances and conditions of its use.*
>
> *"In our opinion the depreciation policies followed by the Company and the provisions thereunder recorded on its books in respect of depreciation, obsolescence and retirement of its electric property represent reasonable and adequate provision for such purposes and are in accordance with sound engineering standards, in view of the present national regulatory requirements."*

These comments are of a general nature but they take on more meaning when one thinks of the world-wide reputation of Stone and Webster.

PROJECTED CAPITAL EXPENDITURES, RATE BASE & NET INCOME

Any utility company that is regulated to a fixed return on rate base can only look to growth in that base to get an increase in operating income. Beyond this the growth in net income will depend upon the cost of capital and, in the case of LIGHT, upon variations in foreign exchange profits or losses.

It was indicated above that the demand for electricity in Brazil should grow at 11% per annum and that the demand in LIGHT's service area would grow at 8% to 1974, producing sales in the latter year of approximately 24.8 billion kwh. The capital expenditures necessary to meet the demand for electricity in the concession areas and the need to upgrade facilities are expected to produce a growth in the rate base of about 8.5%, somewhat in excess of the rate for power demand.

During the forecast period the Company anticipates that capital expenditures on the electric system will approximate $500,000,000 compared with $262,000,000 in the years 1965-1969. This program of capital expenditures is expected to be fairly orderly as it relates entirely to the transmission and distribution systems where the growth tends to be quite steady, a situation that is in sharp contrast to what might occur if the Company were building generating plants. At the end of 1969, LIGHT's rate base was the cruzeiro equivalent of approximately $750,000,000 or $4.43 per 100 kwh sold. By the end of 1974 the rate base is expected to be approximately $1,130,000,000 or $4.56 per 100 kwh sold.

At the end of 1969 approximately 85% of rate base consisted of net plant in service and about 15% was working capital and related items.

A review of LIGHT's cruzeiro financial statements (which are available since 1967 when all the electric subsidiaries were merged) adds perspective to the information in the annual statements of Brascan.

The most obvious feature of the LIGHT statements is the significantly larger debt position than seen in the consolidated statements of Brascan. The long-term foreign debt of LIGHT at the end of 1969 was $164,789,000 while the consolidated figure was $66,922,000. The difference of $97,867,000 represents debentures of LIGHT held by the parent and these, of course, are eliminated on consolidation. This debt, owing to Brazilian Light Limited, is fully registered as foreign investment by the Central Bank of Brazil.

There is a difference of $5,000,000 per year in the sinking fund requirements for the two companies and this represents the payments made by LIGHT to Brazilian Light Limited. The schedule of sinking funds for each is given below:

	LIGHT	BRASCAN CONSOLIDATED
1970 - - - - - - -	$15,174,471	$10,174,471
1971 - - - - - - -	15,380,471	10,380,471
1972 - - - - - - -	15,635,461	10,635,461
1973 - - - - - - -	15,894,645	10,894,645
1974 - - - - - - -	9,785,645	4,785,645

The other item of interest in the LIGHT statements is the amount of working capital. At the end of 1969 this amounted to the equivalent of approximately $34,000,000.

In 1969, the funds obtained from LIGHT's operations and the application of the same were as follows:

	($000)
BROAD SOURCES—INTERNAL	
Net Income - - - - - - - - - -	$ 53,759
Depreciation - - - - - - - - -	22,212
Reversion - - - - - - - - - -	19,635
Reversion Interest - - - - - - -	3,947
	$ 99,553
BROAD APPLICATION	
Sinking Fund - - - - - - - - -	$ 13,600
Dividends - - - - - - - - - -	27,500
Capital Expenditures - - - - - - -	75,074
	$116,174

The net difference of approximately $16,600,000 was more than met from the sale of additional shares ($11,600,000), and new debt ($6,400,000). In 1970 we expect that LIGHT will be able to cover all of its requirements without resorting to outside capital, other than reversion moneys. In the ensuing years some outside financing will likely be required over and above reversion.

With the rate base growing at approximately 8.5% annually, and remuneration fixed at 10% of the rate base

at the end of each year, the growth in operating income will be about 8.5%. Because remuneration is calculated before interest, but after corporate profits taxes, the course of net income will be largely a function of the weighted average cost of capital and any necessary foreign exchange adjustments.

At the end of 1969 the debt capital employed by LIGHT, net of the current portion, was as follows:

			% of Total
8% Series B Debentures - - -	$ 97,867,000	(1)	37.7%
U.S. AID (Alliance For Progress) - -	35,993,000	(2)	
World Bank Loans - -	30,598,000		25.7%
Reversion Funds - -	95,072,000	(3)	36.6%
	$259,530,000		100.0%

(1) The average cost of these funds, including withholding tax, is 10.66% (all held by Brazilian Light Limited).

(2) The average cost of these funds is 5.2% per annum.

(3) Equivalent to Cr. $338 million; the cost of these funds is 6%.

The average cost of all these funds amounts to approximately 7.55%.

By 1974 the amount of debt and its composition will have changed quite markedly. The expected level of capital expenditures for the period to 1974 dictates this.

Reversion has been an important source of funds since the service at cost regime has been in force and will play an increasingly important role.

Brazilian Light may have to make available to LIGHT, in 1971, some of the dividend monies that cannot be remitted from Brazil, to meet temporary shortages. While we cannot be certain of the cost of these funds to LIGHT, they are not expected to have a profound effect on the weighted average cost of capital.

At the end of 1969 debt, as a percentage of the rate base, was approximately 35%. By the end of 1974 this figure is expected to be about 38%.

With the rate base expected to grow at 8.5% and only small changes in the cost of capital, but greater reliance on debt, it is anticipated that net income will grow at approximately 8%. This estimate assumes that there is no change in the service at cost regime and none is expected. This rate of growth is slightly less than the level for the rate base and by coincidence is equal to the growth expected in power sales.

The growth pattern of LIGHT income could exceed that indicated above in the event that future changes in the internal value of the cruzeiro (which affect electric rates through the Monetary Correction process) outstrip future changes in its external value (which affects the dollar value of cruzeiro earnings). This has been the trend in the last two years.

In the years that LIGHT has published statements, net income has been the equivalent of the following:

	Net Income
1967 - - - - - - -	$50,792,000
1968 - - - - - - -	52,466,000
1969 - - - - - - -	53,759,000

With approximately an 8% annual growth expected in net income the $53,759,000 of 1969 should increase to approximately $80,000,000 in 1974. Brascan's portion of the 1974 earnings should approximate $2.80 per share.

DIVIDEND POLICY

LIGHT follows the policy of capitalizing both retained earnings (i.e. earnings in excess of the normal 10% dividend) and the capital reserves arising out of the Monetary Correction process. The practice of paying stock dividends is widely used in Brazil, where it serves to preserve the real value of equity investments. LIGHT has paid the following stock dividends since 1967:

1967 - - - - - - -	20%
1968 - - - - - - -	30%
1969 - - - - - - -	25%

The percentages relate to the year shown but are actually declared and paid during the next fiscal year. This policy of stock dividends is expected to continue for the foreseeable future.

In addition to stock dividends, LIGHT has paid cash dividends in each of the years 1967-1969, equivalent to 10% of the par value of its outstanding shares. This policy is expected to continue. Prior to 1967 the dividend policy reflected the inadequate tariffs and rates of return that preceded service at cost. No dividends were paid on the common shares in the years 1963 to 1965 but in 1966 a dividend of 8% was paid. Dividends on the preferred shares were paid in 1963, 1964 and 1965 prior to their conversion to common.

REMITTANCES

To qualify for servicing in foreign currency, foreign investment in Brazil must be registered with the Central Bank. The current Foreign Investment Law is the third in a series of broad rules that have had a bearing on remittances since 1946. Each has resulted in somewhat different constraints but on balance they have successively taken a more generous over-all approach.

The current law allows all equity capital brought into Brazil to be registered along with 100% of the reinvested profits. This provision contrasts sharply with the previous rules by which only amounts up to 8% (first law) and 10% (second law) of that registered capital could also be registered, upon reinvestment, and all remittances above the referred-to percentage would be deducted from the registered capital.

Profits earned on registered capital can be remitted in full subject to payment of withholding tax. The normal withholding tax on dividends paid to foreign shareholders is 25%. In the case of remittances which exceed 12% of the dollar amount of registered capital, averaged over three years, there is a surtax which is quite prohibitive—40% between 12% and 15%; 50% between 15% and 25%; and 60% beyond that.

In accordance with the law, the foreign investor has to prove that the capital entered Brazil in cash or equipment, and that reinvested profits have been capitalized. Sometimes it is difficult to produce the required proof, especially when the investment was made over a period of 70 years. This is so in the case of LIGHT which to date has only been able to register a portion of Brazilian Light's equity investment in the Company. Under current interpretation of the law dividends payable to Brazilian Light Limited can only be remitted abroad in the proportion which registered capital bears to total capital. Similarly, only a portion of Brazilian Light's share of reinvested profits can be registered.

In the spring of 1970, LIGHT declared and paid a dividend of 10% on its capital, amounting to $33,089,000 (exchange rate of 4.49 cruzeiros to the dollar). Brazilian Light's share of this was 83.3%, or some $27,550,000, before taxes, and $20,663,000 after taxes. Of the after-tax amount, approximately 47.7% or $9,860,000 was remitted to Brazilian Light. The balance for the time being is not remittable. These funds have been used in the diversification program in the past, but some part of them may in future have to be loaned temporarily to LIGHT to meet its capital program.

Shareholders will be interested in the prospects for an increase in dividend remittances beyond those that will come from rising earnings and stock dividends. This could come about in two ways:

(a) An increase in the percentage of capital registered.

(b) A change in the rate for withholding tax.

The percentage of registered capital to total capital is under review and is being discussed with the appropriate authorities. It is reasonable to anticipate an increase in this percentage from 47.7% to approximately 63% during 1971. Further increases are possible, but depend on the interpretation given to the law.

A change in the rate for withholding tax is considered unlikely at this time.

In addition to its equity investment in LIGHT, Brazilian Light also held $97,867,000 of 8% Series B Debentures of that company at the end of 1969. Principal and interest on this debt represent a significant portion of the total cash flow from LIGHT to Brascan. The Series B Debentures are fully registered as foreign investment and are being repaid at the rate of $5 million annually together with interest. Interest and principal payments thereon totalled $13,529,000 in 1969.

The amounts remitted as dividends by LIGHT to Brazilian Light in 1969 and 1970, and shown in the table below, relate to the previous years' earnings. Total remittances in this context were as follows:

	1969	1970
Dividends	$ 8,534,000	$ 9,860,000
Interest	8,529,000	8,129,000
Principal	5,000,000	5,000,000
	$22,063,000	$22,989,000

SHAREHOLDERS

At the present time, Brazilian Light Limited owns 83.3% or 1,546,252,947 of the 1,857,134,236 (1) outstanding shares of LIGHT. The remainder are owned by Brazilian residents in the following categories.

	Number of Shares	Percent of Total Outstanding
BNDE (2).	177,007,450	9.5%
Eletrobrás	3,443,485	0.2%
Public (3)	130,430,354	7.0%
	310,881,289 (1)	16.7%

(1) These figures give effect to the 25% stock dividend paid in 1970.

(2) The Brazilian National Development Bank.

(3) Includes approximately 7,400,000 shares held by O.E.G. and Banco Brascan—subsidiaries of Brascan Limited.

Shares held by BNDE were issued in 1959 and 1961 as part of financing agreements with that bank, while those held by Eletrobrás, the Government power company, are the result of capitalizing credits arising from customers' contributions for line extensions. The public shareholding in LIGHT first occurred in 1960-1961 and this was increased by 55,000,000 shares with the issue of January 1969. At the present there are approximately 130,000 registered public shareholders of LIGHT in Brazil, plus an unknown number holding bearer shares.

The shares of LIGHT are listed on the Stock Exchange (Bolsa) in Rio and São Paulo and are held in high regard by the investing public. Trading volume in the shares was very small when they were first listed in 1969 and while increasing has still not exceeded 75,000 shares (out of almost 2 billion shares outstanding) in any one day. With the built-in protection provided by Monetary Correction, the shares are highly regarded.

EMPLOYEES

The employees of LIGHT currently number approximately 25,000. For any student of North America electric utilities this will appear high, particularly when related to unit sales. One reason is that contractors specializing in certain aspects of construction and maintenance work are not available to the same extent as in North America, with the result that the Company must maintain adequate personnel and shop facilities of its own. Another factor is the social legislation of Brazil which stresses job security to a much greater extent than is the case in North America and sometimes results in the undue retention of non-productive personnel.

The employees of LIGHT belong to two unions of public service workers where strikes are almost non-existent. Bargaining on wages and benefits takes place between the Company and the unions under the sponsorship of the Federal Ministry of Labour. Government guidelines are established as the basis of wage discussions and collective increases, tied to changes in the cost of living, are granted annually.

On balance, the management and personnel of LIGHT are well equipped to meet the demands placed upon them. Their ability to solve operating, financial and regulatory problems has been well demonstrated and is viewed as a positive feature of the Company.

EXPROPRIATION

The possible expropriation of the facilities of LIGHT is a subject which should be discussed. There are precedents in both Canada and Brazil as to Government purchasing utility assets. In the case of Canada, most investors will remember the bitter proceedings related to the British Columbia Government's acquisition of the private power systems that were physically within that province. This was followed by a more orderly acquisition of the power companies in Quebec.

In Brazil there are very few utility companies that are not government owned, and of those remaining LIGHT is not only the largest, but it is also foreign owned. The possibility exists that in time the facilities of the Company will be acquired by the Government or one of its agents. The pertinent question to ask is when is this likely to happen and what compensation will be paid.

We do not know the answer to the question of when. However, if we remind ourselves of the very rapid growth being experienced in most sectors of the Brazilian economy and of the need for additional generating facilities, it is obvious that the demand for capital is sizeable. Sufficient capital to sustain the current rate of growth is not available within Brazil and therefore part of it must come from abroad. Government power companies with extensive projects, already being built or soon to be started, must compete with others for the capital resources available to Brazil. With these resources needed to build essential services, they are not likely to waste them on the purchase of existing facilities. When the demand for capital eases the facilities of LIGHT will still be there and Brazilian resources can perhaps be turned to them. When this is likely to occur is an academic question with no definite answer.

Book value is frequently cited as the criterion for acquisition and most arguments relating to Government purchases of companies seem to revolve around it, though one should not conclude that there is a simple formula. In Brazil there is some precedent to draw on. The Government purchased the telephone company of Brazilian Light at the beginning of 1966. The agreed-on price was \$96,315,787 compared with a book value of \$115,131,213. This amounts to book value minus 16% which is similar to the purchase price for certain power companies of the American and Foreign Power Group in Brazil, where the amount paid was approximately book minus 15%.

As at December 31, 1969 the book value of the shareholders' equity in LIGHT, in historic dollars, was \$411,720,417. Brascan's 83.3% of this amounts to \$342,963,000, to which must be added its \$97,867,000 holding of Series B Debentures. Brascan's total investment in historic dollars is thus \$440,830,000, equivalent to approximately \$19 per share.

The principal determinant of the price which would be payable in the event of a government acquisition of the assets of LIGHT will be the recognized value of the plant used in the electric service, as established by the "Tombamento" described on Page 21.

One final point that should be made in a discussion of possible purchase is the position of LIGHT in Brazil. As the largest private company in Brazil, and one that is foreign owned, the treatment of LIGHT by government authorities will be indicative of the general attitude towards foreign capital. Foreign capital has been given fair treatment and we see no reason to suggest that this will not continue.

PART THREE— THE INVESTMENT PROGRAM

Brascan's investment program is divided into two parts; the Canadian and the Brazilian. The Canadian is the larger with total assets of about $140,000,000. At December 31, 1969, the Brazilian investment program had assets of about $19,000,000, although it has grown since then, and both programs will continue to grow in future. The two are discussed separately in the following sections.

CANADA

Brascan has substantial assets in Canada, and the resources available for Canadian investment should increase steadily. The following table shows the recent composition of these assets at book and market values:

THE BRASCAN GROUP—CANADIAN ASSETS

John Labatt Limited		
—2,885,400 Common Shares / — 62,200 Convertible Preferred (cost)		$ 44,500,000
Other Marketable Canadian Equities		11,400,000
Bonds and Debentures		10,200,000
Other Investments		1,100,000
Cash and Short-Term Investments		34,200,000
Oil and Gas program		
—Elf Oil Exploration & Production Canada Ltd.	$8,000,000 (Cdn.)	
—Mikas Oil Co. Ltd.	$6,500,000 (Cdn.)	14,000,000
Excess of Market Value over Book Value		22,800,000
VALUE OF ASSETS HELD		$138,200,000

The value of these assets amounted to the equivalent of about $6.00 per Brascan share.

John Labatt Limited is one of the major assets with market value of about $67,000,000. This accounts for all the excess of market value over book shown in the above table. As indicated in a separate study in Appendix 4 we are optimistic about the outlook for Labatt both from a fundamental and market point of view. This holding by Brascan represents approximately 32% of the common stock outstanding and is effective control. It will be noted that Mr. John H. Moore, the president of Brascan, is the chairman of Labatt and was for a number of years its president.

The other Canadian equities shown at a cost of $11,400,000, consist of marketable investments in about five leading Canadian corporations. The investment in bonds and debentures shown at a cost of $10,200,000, consists of marketable bonds and debentures issued by leading corporations.

The cash and short-term investments, amounting to $34,200,000, are self-explanatory. This sum together with the $11,400,000 in marketable Canadian equities and the $10,200,000 in bonds and debentures amounts to $55,800,000. Subject to the obvious limitation that Brascan should always have on hand an appropriate amount of ready cash or its equivalent as a liquid reserve, this money is available for the diversification program.

The decision to invest part of these moneys in an attractive investment could have positive implications for the Brascan shares. Furthermore, we do not believe investors generally have been aware of the magnitude of Brascan's Canadian assets.

In addition to this large sum of capital, the Brascan Group has each year, a significant amount of additional dollars for investment. The major components of this annual inflow are shown in the table on Page 28.

The dividend from the Brazilian utility operation is a substantial and continuing component. It is likely that this will increase gradually over the years for the reasons discussed in Part Two.

A second component is the annual repayment of the principal and interest on the Series B debentures owing by LIGHT to Brazilian Light Limited. These debentures are being repaid at the rate of $5,000,000 per annum. This debt does not appear on the consolidated statements because it is an inter-company account that is eliminated on consolidation.

A third factor is the payment of principal and interest due on the debt owing by the Brazilian government from the sale of the telephone utility. As noted, part of the principal repayments has to be reinvested in Brazil. The balance of the principal and all the interest remain in Canada. These amounts are due annually for the next 16 years.

THE BRASCAN GROUP—ANNUAL CASH INFLOW

Annual Dividend from LIGHT	$11,000,000
Annual Repayment of Principal and Interest, Series B Debentures Owing by LIGHT to Brazilian Light Limited	13,000,000
Annual Payment of Principal and Interest by Brazilian Government re Sale of Telephone Utility ($7,400,000 less $2,400,000 to be reinvested in Brazil)	5,000,000
Estimated Investment Income of Canadian Portfolio, less Expenses	3,000,000
	$32,000,000
less Dividend paid by Brascan Limited, $1.00 on 23,289,000 shares	23,289,000
NET AMOUNT AVAILABLE FOR CANADIAN INVESTMENT	$ 8,711,000

A fourth factor is the investment income earned on the Canadian investments. This will show some decline because of the transfer of funds from the high-yielding short-term investments into lower-yielding equities. Over the longer term, however, this income should increase along with the Canadian assets.

In summary, the net cash inflow from all these sources amounts presently to about $32,000,000 a year. Of this, approximately $23,000,000 is required for the annual dividend paid by Brascan, leaving about $9,000,000 each year for Canadian investment. Looking to the future, this annual amount should increase gradually, in spite of the White Paper proposals which could have some negative impact on this flow, (discussed in Appendix 6).

In Canadian investment, Brascan has several advantages. In the first place, it has many years' experience in international business, especially in Brazil. Some of its investments could be advantageous both to the Brazilian and the Canadian economies, an area of considerable opportunity.

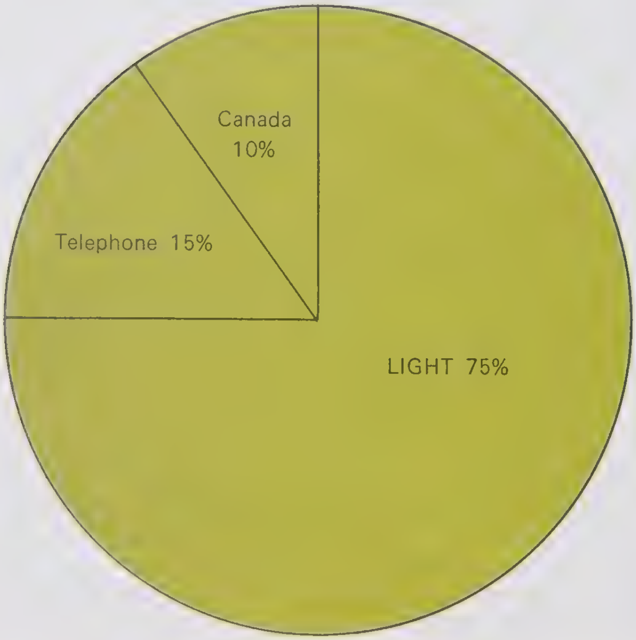
In addition to the investment group based in Brazil, which is discussed in the section on the Brazilian investment program, Brascan has a senior executive and staff stationed in Canada whose sole responsibility is the investment program. Furthermore, there are the directors and senior officers who make a contribution to this program through their contacts and experience.

In assessing Canadian investment, the holding in Elf Oil Exploration & Production Canada Ltd. should be considered. Brascan is committed to invest $40,000,000 Cdn. in Elf Canada in return for a 15% equity interest. Elf Canada's principal asset is its extensive land holdings in the Arctic and other frontier areas of Canada. Some of the Arctic lands were acquired as early as 1960, prior to the recent speculative interest. Since 1964, Elf Canada has been able to conduct preliminary exploratory work on these lands and in the next five years will spend at least $65,000,000 Cdn. on drilling and exploration.

At the same time the Elf Canada investment was made, the Brascan Group also purchased Mikas Oil Co. Ltd. and some producing oil properties in Alberta at a cost of $6,500,000 Cdn. These properties have proven reserves and will produce cash revenues to help offset the Elf costs. (More detail is given on Elf Canada in Appendix 4.) It should be noted that the Elf Canada investment is being made through Mikas.

In other words, Brascan's Canadian assets can be considered a closed-end investment fund, with several important differences. In the first place there is an annual net cash flow of about $32,000,000 and after the dividend to shareholders approximately $9,000,000 for reinvestment; in essence, a regular annual $0.37 a share increase in asset value. In contrast, most closed-end investment companies do not have any surplus funds for reinvestment purposes. Furthermore, such investment funds depend entirely on capital gains to build up their assets.

Where does Brascan's Cash come from?



Then there is the Elf Canada investment which, although it is speculative, does have attractive potential. It should be noted, however, that $8 million annually will be invested in Elf during 1971 to 1974 inclusive. The initial payment was made in July, 1970.

Furthermore, Brascan still has large amounts of cash or equivalents available for investment and this could give rise to further upside potential in the Canadian assets. In addition, Brascan could issue debt against its Canadian assets, and this in turn would give it more assets for reinvestment. The issuance of preferred shares is also a possibility.

An important point to note is that Brascan is an obligor of debt owing to the International Bank for Reconstruction and Development which, at December 31, 1969 amounted to $30,598,000 (excluding $7,450,000 due within one year). This was reduced to $22,942,000 at the end of 1970 and will be eliminated in the next few years.

Finally, there is the large investment in John Labatt which at this point accounts for about 45% of the Canadian assets. Taking all these factors into account, we believe a discount of about 27% would be appropriate—this being the largest discount at which closed-end funds usually sell. Thus, we value the Canadian assets, which currently represent about $6.00 per Brascan share, at about $4.50 Cdn. per share.

BRAZIL

During the past few years, the Brascan Group has had substantial amounts of money available for investment in non-utility operations in Brazil. This capital has been derived from the following sources:

(1) When the telephone utility was sold to the Brazilian Government, it was stipulated that $65,000,000 of the $96,000,000 sale price received must be reinvested in Brazil, the balance being remitted to Canada. As mentioned, these sums are payable in instalments, together with interest at 6% during the years from 1966 to 1986. None of the annual interest payment need be reinvested in Brazil.

(2) At the present time, LIGHT only enjoys a 47.7% registration. Consequently, only part of the dividends it pays can be remitted to Canada. The balance must be reinvested in Brazil. These moneys may either be loaned to LIGHT for expansion or used in the diversification program.

(3) LIGHT has had substantial short-term balances, which have been largely invested in treasury bills, yielding about 4%. A market also exists in prime commercial paper on which yields of approximately 10% can be obtained. The Brascan Group takes an active part in this market and invests part of LIGHT's excess short-term funds in this prime market. This is done through Brascan's investment subsidiaries. It should be mentioned that both the treasury bills and the prime commercial paper enjoy the monetary correction feature so they do not suffer from inflation.

In addition to investing the funds available, a program was undertaken to develop an investment capability in Brazil to handle the substantial funds required to be invested in that economy. For this purpose, a separate investment group was created. The broad corporate structure of this group is shown in the diagram on Page 6. More precisely, the group consists of two holding companies, Emprêsa Técnica de Organização E Participações S.A. ("TOP") and Organização E Empreendimentos Gerais S.A. ("O.E.G."). Between them they have a 100% interest in Banco Brascan which is the chief operating company in the financial business. The other companies illustrated in the diagram represent either controlling or minority positions in operating commercial or industrial enterprises. The important companies are listed in the table on Page 30 and described in Appendix 5.

The management of the Brazilian investment program is entrusted to senior personnel experienced in investments, mutual fund management, financial analysis, accounting and control. This senior group is assisted by a staff of analysts who are professional economists and engineers, and who appraise investment opportunities as well as scrutinizing existing commitments. In order to facilitate timely investment decisions, marketable investments can be approved by the local board. Decisions concerning non-marketable investments are subject to final approval by the board in Canada.

In discussing the investments made by this group, we shall break them down into the two major categories, "Marketable" and "Non-Marketable".

MARKETABLE INVESTMENTS

The marketable investments consist of securities represented by short-term treasury notes, treasury bills, prime commercial paper, debentures and marketable common and preferred shares. As mentioned previously, the prime commercial paper gives a substantially higher yield than treasury bills, i.e. 10% versus 4%.

In assessing these rates, it should be remembered that Monetary Correction is already taken into account so that yields are not also compensating for inflation. This is different from yields in North America which are a composite of an allowance for inflation as well as a true yield.

Money markets in Brazil are not as highly developed as in North America. Nevertheless, the government and financial institutions are rapidly emulating the North American financial markets and this should create numerous interesting opportunities for the Brascan Group.

Similarly, the stock market is not as highly developed as in North America. Nevertheless, the favourable tax treatment afforded Brazilian investors which is discussed in Appendix 6, should assist in a relatively rapid

development of this market. The Brascan Group's investment in the Brazilian stock market have been very successful. In approximate terms, their investments in the market have tripled in value in the last few years. This partially reflects the enactment of the new tax laws concerning investment in Brazil, but still must be considered an outstanding performance.

NON-MARKETABLE INVESTMENTS

Turning to the non-marketable investments, Brascan initially took minority positions in a diversified group of industrial and commercial companies. In making these investments, Brascan had and still enjoys the following advantages:

(1) Large amounts of ready capital in a capital-short country.

(2) Considerable experience and know-how of the Brazilian economy.

(3) The ability to supply management, especially financial management, in an economy where such skills are in short supply.

It should be mentioned that even though the Brascan Group has minority interests in a number of instances, it has been careful to ensure that it is in a position to have an effective say in the management of the enterprises concerned.

Recently, the results of this investment program have been reassessed. As a result the following broad decisions have been made:

(1) Brascan will concentrate its resources in fewer large investments, rather than in a series of small minority positions.

(2) It will tend to develop its investment program in areas related to those where it already has some familiarity.

In assessing Brascan's Brazilian activities program, the following differences between North America and Brazil should be taken into account.

In Brazil, the growth opportunities are in areas which in North America are the mature cyclical industries. For example, one of the major areas of growth in Brazil is the automobile industry which has been increasing as much as 20% a year.

Many Brazilian businesses are relatively small family concerns which do not benefit from professional management. There appears to be a shortage of sophisticated accountants and the accounting records of many of these concerns are inferior. Consequently, a group which has the personnel to install a sound financial system has a great advantage in improving the management of many of these Brazilian companies. This advantage allows a financial group to supply management to a broad range of companies.

An advantage which many segments of Brazilian industry enjoy is a degree of protection from foreign competition. The prime reason for this is Brazil's need to accelerate industrialization and to limit imports to protect its balance of payments position. Furthermore, although Brazilian control or participation is not mandatory in all cases, the government does encourage this and consequently foreign corporations frequently seek out local partners before they can commence operations.

Brazil has a good supply of productive labour, especially in the lower skills. Consequently, there is no need to avoid labour intensive industries, as in North America, because of the possible cost-price squeeze.

THE BRASCAN GROUP—BRAZILIAN INVESTMENTS

Company	Amount Invested By Brascan Group	Brascan Group's Percentage Interest
Banco Brascan de Investimento S.A.	$ 6,000,000	100%
Fábricas "Peixe"	3,900,000	68%
Celanese do Brasil S.A.	3,100,000	45%
Fábrica Nacional de Vagões	2,600,000	22%
Eucatex S.A.—Indústria E. Comércio	1,100,000	12%
Emprêsa Industrial Garcia S.A.	1,000,000	22%
Farloc do Brasil S.A.	500,000	42%
Banco de Investimento do Brasil S.A.	400,000	7%
Brink's S.A.—Transporte de Valôres	400,000	49%
Sub-Total	$13,000,000	
TOTAL	$19,000,000	

The Brazilian economy generally follows North America in setting trends. This gives investors in Brazil an opportunity to observe these trends and to capitalize on similar trends in their own economy. For example, supermarkets are only now experiencing great development in Brazil.

Finally, although it is difficult to prove statistically, it would appear that the rate of return on capital in Brazil is higher than in North America. This would be because of the relatively greater shortage of capital, entrepreneurial capacity, and possibly the greater risks.

The individual non-marketable investments are listed in the table on Page 30 at their historic dollar cost as at December, 1969.

The after-tax income derived by the Brascan Group from these holdings was about $2,000,000 in 1969. This income included dividends in the cases where Brascan only had a minority holding, and the total earnings of Banco Brascan where there is a 100% ownership. It should be pointed out that the bulk of the $2,000,000 of earnings was derived from Banco Brascan. Looking to the future, the income derived from all these investments should increase because some of the major investments are experiencing considerable improvement in their earnings and this would be reflected in the dividends received by the Brascan Group.

In the above list, we have not mentioned TOP and O.E.G., the two holding companies. The assets of these companies are principally invested in shares of the above companies; these holding companies do, however, have some assets in marketable securities which in turn provide additional income.

In Appendix 5 are brief descriptions of the companies in which the Brascan Group has Non-Marketable investments.

Of major importance is Banco Brascan, Brascan's main financial operating company in Brazil.

APPENDIX

1. BRAZIL—SUPPLEMENTARY COMMENTS & STATISTICS

BACKGROUND

As mentioned in Part One, Brazil is a land of contrasts and contradictions, with great regional diversity. Its climate, geography, demography and division of wealth all provide ready examples of these extremes.

Naturally enough, there must be climatic variations in a country stretching over 2,000 miles from north to south and roughly the same distance between its furthermost eastern and western points. The long coastal strip is tropical for the most part, the climate ranging from hot and wet in the north to California-like in the south. The coastline rises to a vast interior plateau. Within the interior, the hump-like northeastern corner of the country is arid and subject to frequent droughts, the north and northwest contain tropical forest, the central portion is rugged highland giving way to vast swamp lands, and the southern region is fertile and temperate. Thus, southern states like Rio Grande do Sul and Santa Catarina are great cattle ranching and farming districts, Paraná and São Paulo in the central-southern region have the red soil and warmer climate ideal for coffee (and of course the city of São Paulo has its industry), Minas Gerais in the central region is nearly all mineral-rich highlands and pasture land, Mato Grosso in the centre-west contains vast plains and swamp lands, the Amazon region to the north and west contains lush forests, valleys and swamp lands, and northeastern states like Bahia, Pernambuco, Rio Grande do Norte and Paraíba are in a generally poorer farming region.

Resulting from these wide geographical and climatic variations is one of Brazil's root problems—the over-development of its coastal areas and the under-development of its interior.

Fully two thirds of the Brazilian population lives near the coast, leaving the vast interior regions only sparsely inhabited. As mentioned, Brasilia, the new and grandiose national capital, was a conscious attempt to open up the interior and draw society away from the triangle formed by the cities of Rio de Janeiro, São Paulo, and Belo Horizonte.

To add to the problems of an unevenly spread population, economic conditions in the densely populated regions could not be more different. Relatively-speaking, the central-southern region is rich and prosperous while the north and northeastern regions are abysmally poor. The former reflects Brazil's growing urban affluence and emerging middle class, and the latter its traditional rural sector where comparatively little has changed.

In the central-southern region is the incredible city of São Paulo, the dynamo and the industrial workshop of the continent. With its 6.5 million citizens, São Paulo is the eighth-largest and fastest-growing city in the world, and in many ways it is a colossus reminiscent of a Chicago or a Los Angeles. Reflecting one of the

best features of contemporary Brazil are São Paulo's millions of middle-class citizens with their valued homes and jobs, their cars and other modern conveniences, and their vacationing and vacation homes at the nearby seaside resort of Santos. Three hundred miles further up the coast is Brazil's second city—Rio de Janeiro ("River of January"), the former capital, with its 4.5 million people, banking, thriving commerce and light industry, beautiful beaches, varied cultural activities and many signs of emerging middle-class affluence. Then, there are also cities like Belo Horizonte to the north of Rio and Porto Alegre in the far south—not to mention Brasilia, the capital city designed by Oscar Niemeyer, whose very existence is compelling Brazil to make the reach into the interior. Modern cities like these are impressive symbols of Brazil's progress and aspirations.

On the other hand, northern cities like Salvador and Recife largely reflect Brazil's traditional past, and the surrounding regions one of its most serious continuing problems—the still basically bad distribution of wealth and the desperate poverty of its peasant masses.

The wide regional disparities so characteristic of Brazil, reflect in other ways too. In the vast region designated as "the Northeast" the illiteracy rate reaches 70% of the total population in contrast to 13% in the south. Here, infant mortality reaches the appalling rate of 50%, the average life span is 40 years, and the average per capita income is less than $100 annually. Here, to date, the rural population that comprises an estimated one sixth of the Brazilian population derives no appreciable benefit from the great industrial development that is going on to the south.

An added aggravation in the wide regional disparities is Brazil's demographic weighting. A combination of a population growing strongly, a rising birth rate and an improving infant mortality means that Brazil is a youthful country. Fully half its population is under 25 years of age and over 70% are under forty. Furthermore, the Brazilian population is growing relatively younger. In addition, a large portion of those of working age are illiterate or considered incapable of training, and are outside the work force to all intents and purposes. With proper training and development, the load imposed by these elements should lessen and, as such, they represent a source of strength for the economy in future years. For the present, however, the demographic weighting adds to the problem of "lifting up" the masses, and the resultant pressures are towards a widening rather than a narrowing of the gap between affluent and poor.

Brazil's demographic, social and economic problems are linked intimately to its rural sector, reflecting in turn in the still-backward state of its agriculture. However, within this sector, there are also wide individual and regional discrepancies to be found.

In the Northeast are the relatively few wealthy "latifundists" with their large feudal estates under extensive cultivation by primitive techniques. Roundabout them are millions of serfs using the most primitive of methods in farming their unviable miniplots. In contrast, in the states of São Paulo and Paraná there are the large and more affluent coffee plantations and in the south the great cattle ranches, as well as the Europeanized and efficiently run vegetable and fruit farms.

The extremes between agriculture in the north and south are very real. While some progress has been made in land reform and in improving agricultural techniques, the bias in Brazil's economic development has undoubtedly been towards industry. Now, for social as well as economic reasons, it is imperative that this bias be corrected and the gap between the urban and rural, and industrial and agricultural, sectors be narrowed. This is easier said than done, but the urgency of the problems has been recognized and they are being tackled in a variety of ways. If for no other reason than that it lags so far behind, the potential of Brazil's agriculture is immense.

Another factor giving great hope for Brazil's future is its natural wealth. As mentioned in Part One, Brazil is extremely well endowed in this respect and the diversification of the Brazilian economy through natural resource development is proceeding rapidly.

OVER-ALL ECONOMY—GROSS DOMESTIC PRODUCT

As mentioned, the production of goods and services within the Brazilian economy is currently running at the equivalent of $35 billion annually or roughly $400 per capita and, further, these aggregate and per capita figures are low in relation to the country's vast resources and to Mexico and Argentina, the other leading Latin American countries.

Perhaps more significant at this stage, however, is the rate of which the Brazilian economy is growing in real terms, particularly since the Revolution of March 31, 1964. Accordingly, the annual growth in real gross domestic product over the 1960s is listed below, both on an aggregate and a per capita basis.

BRAZIL—% GROWTH IN REAL G.D.P.*

Year	Total	Per Capita
1960	9.7%	6.5%
1961	10.3	6.7
1962	5.3	2.1
1963	1.5	(1.5)
1964	2.9	(0.2)
1965	2.7	(0.4)
1966	5.1	1.8
1967	4.8	1.5
1968	8.4	5.0
1969	9.0	5.6
Average		
1960-69	6.0%	2.7%
1968-69	8.7	5.3

*Gross Domestic Product

An average real growth rate of 6% annually over a period that included a great deal of economic and political turbulence adds credence to the earlier observation that the Brazilian economy has long possessed a surprising natural buoyancy and propensity to grow—despite all. At the same time, the per capita rate also serves as a reminder of another Brazilian economic characteristic, namely the way real increases are "eaten up" in large degree by a population growing at a 2.7% annual rate.

The economic crisis of the early 1960s, culminating in the Revolution, is clearly apparent in the slowing growth of the 1962-64 period, and the difficult recovery thereafter in the below-average 1964-67 performances.

Equally illuminating is the upsurge in 1968-69, as the measures to remedy past deficiencies and stimulate the economy paid off and the growth capabilities of the Brazilian economy began being truly realized.

Annual growth in the order of 8-9% on aggregate and 5% per capita is clearly most acceptable. Whether, of course, the 1968-69 tempo can be sustained remains to be seen. In the shorter term, the signs point to another strong performance in 1970. In the medium term, the Ministry of Planning regards a real growth rate in the 7-9% range as a quite attainable—and therefore sustainable—average through to 1973. This would mean the continuance of a 5% real growth rate per capita. In Part One we expressed the view that in the longer term the Brazilian economy was at least capable of doubling its real gross domestic product over the 1970s. This, too, would mean growth averaging 7% annually in aggregate and 4-5% per capita—rates well in line with the 1968-69 performance, as well as the current tempo.

If solutions could be found to inherent problems in the primitive agricultural and rural sectors, the growth over the next decade could well be that much stronger. Similarly, if the solving of these problems was to result, as it could, in a slowing population growth, the benefits per capita would be that much more real.

INFLATION—MONETARY CORRECTION

No review of the Brazilian economy would be complete without an examination of the inflation with which the country has been so plagued, as well as an explanation of the device by which a still-excessive inflation has been made more "liveable" and an assessment of the chances of achieving a further reduction in the inflationary pressures.

BRAZIL—OVER-ALL PRICE INDEX—ANNUAL VARIATION

Year	%	Year	%
1960	29%	1966	38%
1961	37	1967	28
1962	52	1968	24
1963	75	1969	20
1964	90	1970	19
1965	57		

The annual variation in the Over-all Price Index provides an illuminating illustration of the degree of inflation experienced over the past decade.

Inflation in contemporary Brazil dates back to the Vargas era, had reached chronic proportions by 1960, and ran rampant in the years 1962-64, before beginning to be brought under some sort of control by the post-revolutionary regime. Its exact causes are complex, but would doubtless include a combination of the following: an economic structure unable to adapt readily to industrialization and other changes; structural pressures such as a high rate of demographic increase and an extremely rapid urbanization; growing budget deficits financed by increasing the money supply; a chaotic banking system accompanied by an excessive expansion of bank credit; exorbitant salary revisions; inadequate exchange rate adjustments; and, political expediency.

A typical example of the attempts at shielding Brazilians from adverse economic trends in the early 1960s concerns the public services, which were not allowed to raise their prices in order to keep up with their escalating costs; instead, their resultant financial losses were subsidized by the state, the subsidies adding to fiscal deficits financed through a policy of ever-increasing monetary expansion. Eventually, this trend resulted in a complete breakdown of confidence in the purchasing power of the cruzeiro and, hence, in the economy, and inflation reached the 100% level just prior to the Revolution.

In an attempt to check the runaway inflation, the new regime subsequently imposed wage and price controls, instituted policies of strict budgetary control and much more rational government expenditure, and made a concerted attempt to cut the cost of credit. Consequently, a period of strict austerity followed the Revolution, and in its wake the rate of inflation was successively reduced to below 30% by 1967, 20% in 1969 and 19% in 1970.

An integral part of the reduction in over-all price pressures has been the introduction of the device of Monetary Correction.

Simply stated, Monetary Correction is an adjustment to compensate for inflation. It has come to be applied and accepted in many forms in the Brazilian economy.

For example, prices, rents, interest, taxes and wages are now regularly adjusted for inflation in this way, and the Brazilian public is becoming increasingly conversant with the concept. Thus, there are now instruments such as treasury bills with Monetary Correction, savings contributions to the public housing fund are automatically adjusted for inflation in this way, the monthly price indexes are featured regularly in the national newspapers, and so on.

In similar vein, corporations are allowed to annually update their assets and working capital to compensate for inflation and to capitalize additional reserves arising from this process.

With so many built-in forms of adaptation there must obviously come the point where Monetary Correction adds to the difficulty in slowing inflation down. This would seem to be the stage Brazil is now reaching. Since 1964 it has largely been the consumer and credit sectors that have been used to brake the inflationary cycle. How inflation can be reduced significantly below the current 19% levels is not an easy question to answer.

Clearly, and probably correctly, the authorities have not wanted to slow the strong real growth phase the Brazilian economy is in, all the more considering the sound basis on which it is growing and the needs to stimulate the development of the Northeast, the agricultural sector and infant industries such as mining and forest products. Hence, they have continued to follow expansionary policies rather than clamping down on the economy at this stage.

SECTOR ANALYSIS OF BRAZILIAN ECONOMY

	Composition of Net Internal Product				Annual Growth (Real)	
Year	Agriculture	Industry	Services	Total	Agriculture	Industry
1947	28%	20%	52%	100%	n.a.%	n.a.%
1960	23	25	52	100	4.9	9.6
1964	22	26	52	100	1.3	5.2
1965	22	24	54	100	13.8	(4.7)
1966	19	27	54	100	(3.2)	11.7
1967	19	26	55	100	5.7	3.0
1968	17	27	56	100	1.5	13.2
1969	16	28	56	100	6.0	10.8

Under the prevailing inflationary conditions it becomes necessary to adjust the external exchange rate to reflect the resultant erosion in purchasing power of the cruzeiro, and this has been done at more regular intervals since August, 1968. In effect, Brazil has had a flexible exchange rate for the past two and a half years. In 1969, however, the relative strength of the balance of payments permitted a devaluation less than the over-all price increase (14% versus a 20% inflation factor), and a similar policy was followed in 1970 (14% versus 19%).

It is worth remembering that the dynamism and growth potential of the Brazilian economy lies within rather than externally. Thus, if the peasant masses could be lifted up in real terms, and if the productive capability of industry, and particularly of agriculture, could be further improved, a "natural" reduction in the rate of inflation would become that much more possible. Similarly, a temporary slowing down of the economy might also become more warranted, as might the outright termination of the device of Monetary Correction.

Until then, however, inflation remains one of Brazil's major problems—albeit on a much-reduced and more "liveable" scale, and the system of Monetary Correction continues as an ingenious device for preserving confidence and the strong real growth momentum of the economy.

COMPOSITION BY SECTOR

In this subsection an attempt is made to show the sectorial breakdown of the Brazilian economy, with special reference to the agricultural and industrial sectors. In this way it is hoped to put the country's progress, problems and potential into better perspective.

The table above shows the approximate division of net internal product between the agricultural, industrial and tertiary sectors, and also the annual real growth of the agricultural and industrial sectors.

The dynamic growth of industry within the whole is clearly apparent, both in proportionate and real terms. Despite only getting into its stride as recently as the middle 1950s, industry is seen to have overtaken agriculture in terms of product contribution by the 1960s. Then, after holding at around 25% of net internal product through the pre- and post-revolutionary period, and feeling the impact of the 1964-67 austerity era, the industrial sector resumed its upward growth pattern in 1968-69. In both these years industrial goods and services produced grew by better than 10% in real terms, with industry's proportionate contribution rising to 28% of total net internal product. This strong pattern continued in 1970.

As mentioned, Brazil's industry is concentrated in the southern part of the country where it is chiefly manifest

in the São Paulo area, while the remaining regions are predominantly agricultural. The "pull" exerted by industry and the wide disparity between the industrialized south and agrarian north are vividly portrayed in the table that follows:

BRAZIL—ANALYSIS OF NET INTERNAL PRODUCT & POPULATION

	Net Internal Product	Population
North & Centre West[1]	5%	8%
Northeast[2]	15	32
Southeast[3]	62	44
South[4]	18	16
	100%	100%

Including

1. Amazonas, Para, Mato Grosso, Goias.
2. Maranhão, Piaui, Ceara, Rio Grande do Norte, Pernambuco, Alagoas, Sergipe, Bahia.
3. Minas Gerais, Espirito Santo, Rio de Janeiro, Guanabara, São Paulo.
4. Paraná, Santa Catarina, Rio Grande do Sul.

Based on

— census of 1960 (latest census undertaken in fall of 1970).

— 1967 breakdown of net internal product (latest available).

Thus, 44% of the population living in the relatively prosperous Southeast account for roughly 62% of the net internal product, while in the destitute Northeast 32% of the population contribute only 15%. As mentioned in the footnotes to the table, these ratios are based on past figures and the industrial growth of recent years may well mean that the disparities are even greater today.

The statistical tables in this subsection illustrate both progress and root problems.

Industry has long since overtaken agriculture and, with the emphasis and priority it has been accorded, the country's industrial growth is remarkable to say the least. Furthermore, the industrial momentum shows no sign of letting up and the resultant wealth and prosperity has materially benefited a large percentage of the population.

On the other hand, still too little of the benefits from industry have rubbed off on the majority of the population, and consequently the gap between the industrialized, urban south and the agrarian, rural north has grown wider.

Brazil's painfully primitive agriculture, which probably still employs as much as half of the working population, is in need of radical improvement. Agrarian and land reform is still in the early stages, but is receiving a high degree of priority at this juncture. Included are schemes for providing rural credit, technical assistance, financial and export incentives, and support prices. A streamlining of the agricultural marketing and distribution system, refrigeration, processed foods and the advent of supermarkets are also changes for the better. Fiscal incentives are also available to both individuals and corporations to invest in the still largely agricultural Northeast.

This analysis serves as a reminder, then, of the impact of industrialization, the need to improve the lot of the agricultural and rural sectors, and the further all-encompassing growth potential if an economic "breakthrough" can be achieved in the agricultural-rural sectors.

GOVERNMENT SECTOR

A contributory factor to the breakdown of 1964 was an inefficient public sector incurring growing deficits financed largely through the artificial expedient of increasing the money supply. Consequently, one of the first priorities of the military regime was to restore the public sector to financial health.

Since 1964 the budgetary deficits have been steadily reduced as a percentage of gross domestic product.

Furthermore, the method of financing the deficits has become less inflationary as confidence in instruments such as government treasury bills (with Monetary Correction) has grown. Such has been the tightening up in the government sector that taxes have not had to be raised excessively in real terms. As a result, Brazil now has considerable fiscal strength.

The trends described above, as well the role of the government in the over-all economy, are illustrated in the following table:

BRAZIL—GOVERNMENT DEFICITS, TAXES & EXPENDITURE

Year	Deficit as % of G.D.P.	Gross Taxes as % of G.D.P.	Govt. Expenditure as % of G.D.P.
1960	2.8%	20.1%	23.2%
1961	3.4	18.8	20.8
1962	4.2	17.8	19.0
1963	4.2	18.0	19.9
1964	3.2	19.3	18.8
1965	1.6	21.8	20.1
1966	1.1	24.1	22.5
1967	1.6	23.3	21.2
1968	1.2	26.7	23.9
1969	0.6	n.a.	n.a.

In 1970 the deficit will again have been in the order of half a percent of gross domestic product, which is a far cry from the 3-4% levels of the 1960-64 period. The 1971 plans call for the deficit to be kept below one percent of the total domestic economy.

As the table shows, the state plays an active role within the Brazilian economy, whether it be in welfare, highway construction or the provision of other necessary infrastructure, directing a national housing program,

using taxes as an instrument of economic policy, or in operating power utilities, steel, oil, and other enterprises. This broad involvement makes Brazil's fiscal performance since the Revolution all the more impressive. Obviously, huge strides have been made in such matters as streamlining the civil service, and collecting taxes more efficiently.

Equally, Brazil's fiscal strength is a reflection of the capabilities of the "technocrats" who head the various government departments and who play key roles in planning and guiding the economy of the country.

EXTERNAL SECTOR

It has been pointed out that Brazil's contemporary economic growth has been sparked and driven by internal rather than external forces. At the same time, stress was laid on the importance of exports, including coffee, as a means of paying for critical imports (wheat, petroleum, plant and equipment) and of providing the foreign exchange with which to service foreign investment—this ability adding in turn to the confidence of foreign investors and facilitating the flow of foreign capital, still so vitally necessary to Brazil's economic development.

These various aspects are evidenced in the table below:

In a national output currently in the $35 billion range, exports account for less than 10% of the total economy. (In 1969, for example, after a strong growth year, the relative contribution of exports was roughly 7.5%.) Nevertheless, they remain critically important in earning foreign exchange. In addition to helping keep the deficit on current account within tolerable proportions, they are key in supplying the goods and services needed for development of the country. For these reasons exports have been actively promoted in recent years.

The single most important export is coffee, even though its relative contribution to total exports has declined from 75% just after the War, through 50% at the time of the Revolution to roughly one third at present. Here, too, coffee remains a critical factor in a delicate trade and balance of payments picture, and strong coffee prices have undoubtedly helped in recent years.

Though not shown in the table, other exports are quite widely diversified. Thus, in 1969, exports of cocoa, cotton, sugar and iron ore each exceeded $100,000,000—this compared with coffee's $813,000,000. In particular, the export of iron ore had risen strongly to the $150,000,000 annual level, and the potential in this area continues well above average. In addition, the collective contribution of manufactured goods had grown to better than 10% of total exports by 1969.

BRAZIL—BALANCE ON CURRENT & CAPITAL ACCOUNT

(absolute totals in millions of $U.S.)

CURRENT ACCOUNT	1964	1965	1966	1967	1968	1969
Exports (f.o.b.)	$1,430	$1,596	$1,741	$1,654	$1,881	$2,311
% to U.S.	33%	33%	33%	32%	33%	26%
Coffee	760	707	764	705	774	813
% of Total Exports	53%	44%	44%	43%	41%	35%
Imports (f.o.b.)	1,086	941	1,303	1,441	1,855	1,993
Balance (Deficit) on Merchandise Trade	$ 344	$ 655	$ 438	$ 213	$ 26	$ 318
Deficit on Services, including	(318)	(447)	(550)	(567)	(551)	(602)
Foreign Investments						
Direct	(58)	(102)	(125)	(110)	(130)	(77)
Interest	(134)	(167)	(164)	(203)	(156)	(202)
	(192)	(269)	(289)	(313)	(286)	(279)
Balance (Deficit) on Current Account*	(81)	283	(33)	(277)	(503)	(269)
CAPITAL ACCOUNT						
Capital Inflow to						
Private Sector	95	96	143	84	564	578
Public Sector	118	74	209	95	11	167
	213	170	352	179	575	745
BALANCE OF PAYMENTS*	4	331	153	(245)	32	549
FOREIGN EXCHANGE RESERVES (at year-end, rounded)	250	500	400	200	250	650

* Transfers not connected to Current Account and Errors & Omissions in arriving at these figures not shown in the table.

Hence, though exports are still largely concentrated in non-industrialized products, subject to the vagaries of world commodity markets, the export base is becoming much more diversified.

While relatively small within the whole, the annual level of exports rose by a creditable 62% between 1964-69, or at an average of just over 10% annually. On the other hand, imports rose by a significantly higher 84%, or at roughly 14% annually. In consequence, Brazil's merchandise trade remained in rather uncertain and marginal balance over this period, meaning in turn that a current account deficit was incurred in virtually every year of the 1960s.

CRUZEIRO—DOLLAR RATE & CHANGES

Date	Purchase Rate Cr. $ per U.S. $	Interval in Days	Increase %
Dec. 28, 1964 - - - - -	1.825	—	—
Nov. 16, 1965 - - - - -	2.200	322	20.5
Feb. 13, 1967 - - - - -	2.700	456	22.7
Jan. 4, 1968 - - - - -	3.200	321	18.5
Aug. 27, 1968 - - - - -	3.630	208	13.4
Sept. 24, 1968 - - - - -	3.675	28	1.2
Nov. 19, 1968 - - - - -	3.745	57	1.9
Dec. 9, 1968 - - - - -	3.805	21	1.6
Feb. 4, 1969 - - - - -	3.905	57	2.6
Mar. 19, 1969 - - - - -	3.975	43	1.8
May 13, 1969 - - - - -	4.025	55	1.3
July 7, 1969 - - - - -	4.075	55	1.2
Aug. 27, 1969 - - - - -	4.125	51	1.2
Oct. 3, 1969 - - - - -	4.185	37	1.5
Nov. 14, 1969 - - - - -	4.265	42	1.9
Dec. 18, 1969 - - - - -	4.325	35	1.4
Feb. 4, 1970 - - - - -	4.380	49	1.3
Mar. 30, 1970 - - - - -	4.460	54	1.8
May 18, 1970 - - - - -	4.530	49	1.6
July 10, 1970 - - - - -	4.590	53	1.3
July 24, 1970 - - - - -	4.620	14	0.7
Sept. 18, 1970 - - - - -	4.690	56	1.5
Nov. 4, 1970 - - - - -	4.780	47	1.9
Nov. 18, 1970 - - - - -	4.830	14	1.0
Dec. 22, 1970 - - - - -	4.920	34	1.9

However, since the Revolution, the shortfalls on current account have been more than offset by the net inflow of investment capital which, having shrunk somewhat in 1964-65 and again in 1967, rose strongly in 1968 and 1969, this flow reflecting the enhanced confidence of foreign investors. As a result, Brazil's foreign exchange reserves recovered sharply, rising to the $650,000,000 level in 1969—and thereafter reaching the $1.1 billion mark in 1970.

As mentioned, internal inflation and the system of Monetary Correction have meant that the exchange rate has to be altered frequently if Brazil is to remain competitive on the export front and if imports are to be kept in step with exports. This has been done by the new regime, as the table shows, and since August, 1968 a system tantamount to a flexible exchange rate has been in effect, with frequent adjustments in the official dollar-cruzeiro exchange rate.

In 1965-66, the devaluations of the cruzeiro lagged well behind the annual price variations of 57% and 38% respectively (refer subsection Inflation—Monetary Correction). In 1967, they were 24% versus a 28% price variation. Then in 1968, the devaluations, aggregating some 41%, were well ahead of a 24% inflationary factor. In 1969, on the other hand, they lagged behind—at about 14% on a full annual basis compared with a 21% price variation in the economy. By then, however, the external sector had improved such that the exchange rate could be used as a "safety valve" or a "regulator". Also, the logic seems to have been to keep in step with the U.S.A.; hence, price deteriorations of 20% in Brazil and 6% in the U.S. in 1969 meant that a 14% devaluation of the cruzeiro was felt justified.

Throughout time, Brazil's foreign trade has been a mirror of the economic structure of the country. Clearly, the post-revolutionary period has proved no exception and the upward momentum of recent years has been paralleled by strongly growing exports and an improving balance of payments picture on both current and capital account. Nevertheless, even though Brazil's trade has become more broadly based and its import substitution ability greater, there is little question that the balance on current account, reflecting merchandise trade as it does, remains as a major—and necessary—constraint in the growth of the Brazilian economy.

Over the long term, it would seem that Brazil needs export growth in the order of 6-7% annually, accompanied by a slightly slower growth in imports, if the balances so essential in its continued prosperity are to be maintained. Projections through to 1973 suggest exports can achieve these goals and that the deficit on current account can be held in the $500-600 million range. At the same time, the broadening of the export base and the process of import substitution will continue to have a positive over-all effect, thereby adding to the prospects of a strong external sector well into the 1970s at least. This, in turn, will facilitate the continuing strong growth of the internal economy.

CAPITAL SECTOR

It almost goes without saying that the savings-investment process has been an integral part of Brazil's economic development. What is more, development capital is today perhaps more important to Brazil than it has ever been. The country has long depended on the provision of capital, from internal as well as foreign sources. This need becomes increasingly important with the great wave of industrialization that began in the middle 1950s and the renewed expansionary environment following the Revolution. As mentioned, it remains as real today. Without a continuing flow of fresh investment capital the potential of Brazil's vast and unfolding resources could not be realized, and the growth of its ever-rising industry, technology and infrastructure would be im-

peded. Hence, the capital sector is key in any assessment of contemporary Brazil. At the same time, it is as complex as it is important, and the resultant difficulties of analysis are compounded by unreliable and inadequate statistics. Consequently, it will be necessary to tread broadly.

First, in this subsection, the capital sector's relative importance, annual growth and the division between private and public investment sources will be shown. Next, will follow an assessment of foreign capital investment in Brazil, and the subsection will conclude with a discussion of the various features of the Brazilian capital market.

—TOTAL CAPITAL INVESTMENT

The relative contribution and growth of gross capital investment within the Brazilian economy since 1960 is shown in the table below:

BRAZIL—TOTAL FIXED GROSS INVESTMENT

Year	% of G.D.P.	Annual Growth
1960	17%	—%
1961	17	—
1962	18	5.9
1963	18	—
1964	17	(5.9)
1965	15	(11.8)
1966	15	—
1967	14	(6.7)
1968	17	21.4
1969	n.a.	n.a.

The checkered years before and after the Revolution are readily apparent, as is the rising proportionate importance and above-average growth of total capital investment in recent times. Furthermore, a continuation of the upward trend of 1968-69 is anticipated in the 1970s, when the consensus is that total fixed gross investment will remain at 15% of gross domestic product or better. Set against the growth foreseen for the economy over at least the intermediate term, this would mean annual capital investment rising at an 8-10% rate in real terms.

The preponderant role of private capital in the financing of Brazil's economic growth is very evident in the analysis that follows;

DIVISION OF TOTAL FIXED GROSS INVESTMENT

	1966	1967	1968	1969
Private Sector	74	69	75	n.a.
Public Sector	26	31	25	n.a.
	100%	100%	100%	100%

With the division shown in the table in mind, it is obvious that a large proportion of Brazil's capital needs must continue to come from private sources. Thus, if the total capital sector is to grow by the order of 8-10% annually, the onus for financing Brazil's future economic growth is going to rest on the private sector to a very large degree.

Among the many heartening features of modern-day Brazil is the growing awareness of the role of the capital markets by the urban man in the street and the rising middle class of which he is part. As a result, both are turning increasingly to buying financial assets as a means of storing and accumulating wealth. The accompanying incentives to save and invest will be dealt with later. It is suffice at this stage to comment that the official acceptance of the role of private enterprise and of the need for Brazilian nationals to participate directly in their country's economic developments are very clear.

—FOREIGN INVESTMENT

It would seem from latest statistics that approximately four fifths of the country's capital outlays are being financed from internal resources and roughly one fifth with resources obtained from abroad. Although domestic capital-generating ability is growing, foreign investment must obviously continue to play a key role, all the more considering the country's large-scale capital needs.

The history of foreign capital investment in Brazil—with its positive and negative connotations—is a subject in itself and, as mentioned, is complicated by inadequate data. Nevertheless, it is possible to sketch in the broad picture and establish the main trends from the data available.

A reasonable estimate would put the nation's foreign debt at the $4 billion level, of which roughly one third is of a short-term duration and two thirds longer term. In a $35 billion economy, an external debt load of these proportions is probably somewhat on the high side, thereby underlining the importance of exports and of maintaining a strong balance of payments and foreign exchange position.

Though undoubtedly substantial, the extent of foreign equity investment in Brazil is even more difficult to gauge. What is known is that direct foreign investment shot up in the 1950s and, excepting for the difficult period in the 1960s, has been continuing to grow strongly since. Ten years ago total foreign equity investment in Brazil was tentatively estimated at $3.0-3.5 billion, of which half was in manufacturing enterprises and most of the remainder was in petroleum marketing, public utilities and mining. The proportionate breakdown could well be similar today, though the total investment is obviously considerably greater.

A fairly recent estimate putting U.S. private investment in Latin America in 1967 at the $10 billion mark could provide a clue as to total foreign capital investment in Brazil. The United States is without doubt the largest single source of foreign investment in Brazil. (West Germany, Japan and Great Britain are substantial investors as well, the latter more for historical than contemporary reasons.) Thus, if half of this $10 billion U.S.

investment in Latin America had been in Brazil—as it could well have been—and if, at a conservative estimate, the U.S. accounted for, say, half the foreign investment in Brazil, total foreign capital investment in the country would also have been in the order of $10 billion at that time. Considering the greatly improved economic climate and capital inflows of recent years, the figure would be significantly higher than $10 billion today.

Including foreign debt, total foreign investments in Brazil could thus easily be in the $15 billion range at the present time. If reasonably accurate, this figure represents a substantial aggregate investment indeed.

NET FOREIGN INVESTMENT IN BRAZIL
(in millions of $U.S.)

Year	Direct Investment	Other Medium and Long Term	Short Term	Total Private	Public	TOTAL
1964	$ 85	$(40)	$ 30	$ 75	$140	$215
1965	155	(75)	—	80	90	170
1966	160	(35)	10	135	215	350
1967	115	40	(75)	80	100	180
1968	110	85	360	555	90	645
1969	120	n.a.	n.a.	580	170	750

The net foreign capital flow into Brazil since 1964 (prior data not available) is shown in the table above, including the division between private and public sources.

Though these are net figures, the reduced flow in the 1964-67 period and the renewed surge in 1968-69 are readily evident.

The flow of capital from public sources abroad is also an interesting feature of the table. Chief among the numerous agencies who have made loans or donations to Brazil is the World Bank. Brazil is far and away the Bank's most important client in Latin America, and after a period of hesitancy in the early and middle 1960s the Bank has been stepping up and widening its operations in the country—this obviously reflecting a favourable reading of the Brazilian economy on its part. The pattern is similar in the case of other agencies such as the Inter-American Development Bank (international agency) and Eximbank and AID (U.S. agencies).

A method frequently used by government agencies such as these is to make loans in partnership with local institutions, government and other. In fact, partnership and joint venture undertakings are becoming popular at all levels in Brazil. The advantages of direct national participation and ownership combined with foreign capital resources and know-how are clearly many.

The statistics provided above would certainly seem to suggest that foreign investors of all types like what they are seeing in Brazil. To its credit, the post-revolutionary regime has actively encouraged foreign investment. The country's foreign investment laws epitomise the realistic and progressive approach taken in this all-important regard. Perhaps the main way of "regulating" foreign capital is through the laws pertaining to the registration of foreign capital and the remittance of profits thereon. Though dating back to before the Revolution, it has really been since the formation of the central bank in 1965 that these laws have been simplified and more uniformly applied.

All foreign investment must now be registered with the central bank and profit remittances cleared through this institution. (Foreign investments made comparatively recently can usually be readily identified, but the further back in time such investments date the more difficult it can sometimes become to prove the extent of foreign ownership. Thus, Volkswagen would presumably have little difficulty in verifying its investment in Brazil, whereas only some 48% of Brascan's equity investment in LIGHT is currently accepted by the authorities as foreign registered.) Interest on foreign debt is remittable without restriction, and in this respect it is worth pointing out that Brazil has never defaulted on an international debt and that it enjoys an excellent credit rating in world government circles. At the present time, profits may be remitted (after withholding tax) up to 12% annually on registered capital over a three-year averaging period. Above 12%, taxes make profit remissions confiscatory and consequently the usual procedure is for foreign-owned corporations to plough back earnings in excess of this level. Profits retained in this way are then capitalized as foreign capital, meaning the 12% can be earned and remitted on a larger base in succeeding years.

Should it ever come to choosing between the use of foreign exchange reserves for the purchase of a strategic commodity such as wheat or for the remission of profits on foreign capital (as distinct from interest on

foreign debt), it is obvious where the priority would lie. However, with the strengthening external sector of recent years, problems of this nature are not evident at the present time, and an over-riding impression is that Brazil's foreign capital laws as presently constituted are eminently fair. The rising flow of investment from abroad provides strong supporting evidence for this contention.

—FEATURES OF THE BRAZILIAN CAPITAL MARKET

While foreign investment is a key and ever-necessary component of the capital sector, and realistic laws have been enacted to encourage and regulate it, the desirability of Brazilians investing in the equity of their own country has not been forgotten.

Included in the official encouragement to local ownership is a 50% maximum individual tax rate, the tax-free status of capital gains, and the tax savings that are available if investment is made in "157" Mutual Funds and/or "open" companies. The "157" Mutual Funds were set up to channel risk capital into corporations, with the ultimate objective of furthering the equity market and "opening" companies' ownership to the public. The statutory definition of an "open" company is complex and technical; basically, however, such companies have at least 500 shareholders collectively holding an initial 20% of the voting capital rising to at least 49% over a period of time, with individual investors not allowed to acquire more than 1% of the voting equity.

The urban man in the street is becoming increasingly aware of the advantages of saving and investing, and his numbers are growing. Reflecting the trend to equities, the Rio and São Paulo stock markets have boomed in recent years and, in particular, the mutual fund industry has grown very strongly.

In a similar vein, there are various corporate and individual incentives to invest in "designated" industries and regions. Agriculture, Forest Products, Fisheries and Tourism are among the industries that fall within this classification at the present time. SUDENE and SUDAM are the two principal government agencies set up to supervise the development of the Northeast and the North, the designated regions for which they are respectively responsible.

It is worth reiterating that the tax laws providing, as they do, incentives for individuals and corporations alike reflect a two-fold awareness by the central government. First, they reflect a recognition of the government's responsibility for developing strategic regions and industries. Second, they reflect a desire that such development be accomplished in association with private enterprise, rather than exclusively through government channels.

Then, as mentioned in Part One, the roles of the various intermediaries in the capital market have been clearly spelled out in recent years. Thus, the fewer banks concentrate on providing traditional banking services, finance companies are once again concerned with the purchase of automobiles and other consumer durables on credit, the investment banks are concentrating on medium to long-term financing and underwriting, the mutual funds serve as equity channels for individual savings, and so on.

No mention of the Brazilian capital market would be complete without commenting on the new system under which, as from 1967, with the institution of the so-called Length of Service Guarantee Fund, the worst effects of the nation's job stability laws have been by-passed and much-needed savings thereby channelled into the housing sector. Previously, dispensing with an employee became progressively more expensive with the passage of time, and virtually impossible after 10 years service. Now, however, companies deposit monthly in escrow accounts in the names of their employees amounts equivalent to 8% of their salaries. These accounts are drawn upon by the National Housing Bank which uses the funds in the financing of housing programs. Instead of the employee receiving compensation upon dismissal, or attaining job stability upon completing 10 years service, he is given the right to opt for deposits in the escrow account in his name, such deposits being refundable to the company only when the employee does not so opt. For the employee who does, such contributions, which earn interest plus Monetary Correction, are portable, may be drawn upon in the event of dismissal without cause, are available in other cases provided for in the law, revert to the employee's family upon his death and constitute, if preserved until his retirement, a supplemental pension fund. Most employees opt for the new system and in this way labour has become more efficient and mobile, and the financing of a huge national housing program has been greatly facilitated.

Not only are the tax reforms and accompanying investment laws of the post-revolutionary regime imaginative and progressive; they have helped considerably towards generating internal capital resources, and thus in the growth and development of the Brazilian economy.

2. MONETARY CORRECTION COEFFICIENTS*

Year	Dec. 31, 1967	Dec. 31, 1968	Dec. 31, 1969
1938	410,22	513,98	612,56
1939	388,04	486,19	579,44
1940	365,82	458,35	546,26
1941	332,60	416,73	496,65
1942	269,77	338,01	402,84
1943	232,83	291,72	347,67
1944	203,26	254,67	303,51
1945	173,69	217,62	259,36
1946	151,52	189,85	226,26
1947	140,43	175,94	209,68
1948	133,04	166,69	198,66
1949	121,94	152,78	182,08
1950	107,16	134,27	160,02
1951	88,69	111,12	132,43
1952	81,30	101,86	121,40
1953	70,23	87,99	104,87
1954	55,43	69,45	82,77
1955	48,04	60,19	71,73
1956	40,65	50,93	60,70
1957	36,96	46,31	55,19
1958	31,41	39,35	46,90
1959	22,91	28,70	34,20
1960	17,38	21,78	25,96
1961	12,57	15,75	18,77
1962	8,13	10,19	12,14
1963	3,69	4,62	5,51
1964	2,12	2,66	3,17
1965	1,67	2,09	2,49
1966	1,22	1,53	1,82
1967	1,00	1,25	1,49
1968	—	1,00	1,19
1969	—	—	1,00

* As published January, 1970 for application to fixed assets and related reserves.

3. FOREIGN EXCHANGE ADJUSTMENT

The annual foreign exchange adjustment is a significant item which merits some clarification. As tabulated below, it has shown a considerable swing during recent years.

	1965	1966	(000's) 1967	1968	1969
Loss on Foreign Exchange (Gain)	$4,460	$2,965	$5,219	$3	($2,730)

This adjustment is the result of converting amounts carried in Brazilian cruzeiros into U.S. dollars. The accounting entries involved are extremely complex but follow generally accepted accounting principles as outlined in the annual report to shareholders.

As far as the investor is concerned, the following changes have occurred in recent years which should reduce the amplitude of foreign exchange adjustments. First, in 1968, the Brazilian Government adopted a moving exchange rate which tends to reduce severe fluctuations in the exchange adjustment. Second, there was formerly a net balance of cruzeiro assets which meant that as the Brazilian currency declined in value, there was a heavy foreign exchange adjustment. In the past few years, the Brazilian Government has issued treasury bills with a Monetary Correction feature. By investing in these issues, the Brascan Group has substantially reduced its net asset exposure in cruzeiros and hence has avoided a heavy annual exchange expense.

In our section on the Brazilian economy, we discuss the outlook for the cruzeiro, both in terms of its internal and external values. In summary, although it is difficult to predict exactly the size and direction of the foreign exchange adjustment, its magnitude should be reduced considerably by recent changes and by the more favourable outlook for the cruzeiro.

JOHN LABATT LIMITED
(all dollar figures here are Canadian)

Simplified Capitalization ($000, April 30, 1970)		%	Fiscal* Year	Earnings Per Share	Annual Increase
Long Term Debt	$ 29,850	18.6	1967-68	$0.91	17%
Minority Interest	9,375	5.8	1968-69	1.19	30%
Conv. Preferred+	54,543	34.1	1969-70	1.45	22%
Common Equity+	66,497	41.5	1970-71	1.55Est.	7%
	$160,265	100%			

*fiscal year ends April 30

+No. of shares Outstanding: Conv. Preferred—3,030,136, (Conv. into Common, 1-for-1 to Feb. 15, 1980); Common—8,949,455

BACKGROUND TO BRASCAN HOLDING IN LABATT

With an investment in it worth approximately $67,000,000 at current levels, John Labatt Limited constitutes Brascan's first major diversification, as well as its largest single investment outside both the utility field and Brazil. Assessment of Labatt is therefore important in assessing the investment worth and potential of Brascan.

At latest count, Brascan holds 2,885,400 shares of Labatt common and 62,200 convertible preferred. These holdings give it a 32% common equity interest, or a 25% interest assuming conversion of the preferred.

The investment in Labatt arose out of a series of fortuitous circumstances dating back to the mid 1960s.

In February, 1964 the Jos. Schlitz Company of Milwaukee purchased an equivalent 3,400,000 Labatt shares (adjusted to reflect 2-for-1 stock split in October, 1967), or a 39% interest, at $11½ per share. This purchase indirectly gave Schlitz control of Labatt's U.S. associate, General Brewing (now Lucky Breweries), which operates in the westcoast area, and therein lay the rub. The U.S. Department of Justice felt that its acquisition of Labatt, and thus also of General Brewing, gave Schlitz an unfair advantage in the California beer market. Consequently, Schlitz was served with a restraining order on the grounds of anti-trust violation and after a protracted legal dispute was forced to divest its holding in Labatt.

Subsequently, in the spring of 1967, Schlitz announced the sale of this holding at an equivalent $10½ a share to a group consisting of Brascan (then, Brazilian Light and Power Company, Limited), Investors Mutual and Jonlab Investments, Ltd., the latter a private holding company owned by senior Labatt executives.

Brascan bought 2,000,000 Labatt shares under this arrangement, Investors Mutual 600,000 shares and Jonlab the remaining 800,000 shares. Subsequently, Brascan added to its investment in Labatt, the major addition coming in February 1970 when Jonlab sold its 800,000 shares to Brascan. At the time Labatt was in the $30 range, meaning a total consideration in the order of $24,000,000. Jonlab used the proceeds of this sale to buy a block of Brascan, representing an 11% interest, from International Utilities Corporation and is now the largest single shareholder in Brascan.

The average cost of Brascan's investment in Labatt is estimated in the $15-16 range. Clearly, therefore, this first deliberate step towards diversification has constituted a satisfactory investment as far as Brascan is concerned. Clearly, too, the association between the two companies is an intimate one in view of Mr. John H. Moore's presidency of Brascan and chairmanship of Labatt. (Mr. N. E. Hardy, President of Labatt, is also on the board of Brascan.)

In our view there is good reason to rate Labatt as an attractive equity investment with continuing above-average growth prospects.

THE COMPANY

It was not too many years ago that John Labatt Limited was a London-based brewery serving essentially the Ontario market. Today, it is a holding company heading the largest and fastest growing brewery operation in Canada, in addition to associate companies in the U.S.

In conjunction with its rapidly rising share of the beer market in Canada, Labatt has diversified on a major scale in recent years into complementary lines such as foodstuffs, food service and confectionery. The far-reaching changes that have occurred in Labatt, over the past two years in particular, have resulted in the emergence of one of Canada's largest and most dynamic groups of companies.

Following acquisitions and a structural reorganization, the Labatt group of companies and operations now divides as follows:

BEVERAGES

Brewing in Canada

Labatt Breweries of Canada Limited
(wholly owned) and its 9 subsidiaries.

Brewing in U.S.A.

Lucky Breweries, Inc. (47% interest)
Labatt Importers, Inc. (wholly owned)

Wines

The Parkdale Wines Limited (60% owned)
and its wholly-owned subsidiary
Normandie Wines Limited.

FOODS

Consumer Food Products

Catelli-Habitant Ltd.
Catelli-Habitant Inc.
Manning's Inc.
Parnell Foods Limited
Laura Secord Candy Shops Limited (64% owned)
and its wholly-owned subsidiary
Smiles 'n Chuckles Limited

Industrial Products

The Ogilvie Flour Mills Company, Limited, with
divisions and subsidiaries including
Milling & Baking
Starch & Chemical
Animal & Poultry Feeds
Delmar Chemicals Limited
Ault Milk Products Limited, and an associate company
McGavin Toastmaster Limited (60% equity interest, 50% voting interest).

As an illustration of the size and relative importance of the two main sides, sales were derived as follows in the fiscal year ended April 30, 1970:

Beverages* - - - -	$211,402,000	54.5%
Industrial Products - -	93,151,000	24.0%
Consumer Foods Products	84,230,000+	21.6%
	$388,783,000	100.0%

* including excise and sales taxes of $82,280,000

\+ the following only reflected since date of acquisition, i.e. for a partial year: Laura Secord since July 1969, Manning's since August 1969, and Parnell Foods since October 1969.

However, while sales might divide fairly evenly between the beverage and food sides of operations, it was the Canadian brewing operation that contributed substantially all the $15,895,000 of earnings in the latest year. (Lucky Breweries, the U.S. associate, is not consolidated and pays no dividend, while Parkdale and Normandie sales are estimated at a relatively small $3,500,000.) In fact, after the $3,050,000 of dividends on the convertible preferred issued to acquire Ogilvie Flour Mills, the foods side actually inhibited common shareholder earnings in fiscal 1970. This is again happening in the current fiscal year and over the nearer-term future it is clearly brewing in Canada that must continue to carry the day.

BREWING OPERATIONS

Labatt's record in the traditionally slow-growth brewing industry has been outstanding, as the accompanying statistical tables show.

From 17.6% ten years ago, its share of the Canadian market rose strongly to the 32% level at end of the latest fiscal year, and currently exceeds 34% in our estimation.

In this period, Labatt "50", an ale, has become Canada's best selling brand accounting for close to 20% of the total market. Labatt Pilsener ("Blue"), with an estimated 8% market share, is Labatt's next major brand and has also grown well.

The strongly rising demand for Labatt products, especially "50", has necessitated further plant expansion across the country. Particularly noteworthy in the capacity that has been added is the new 500,000 bbl. brewery in Metro Toronto, which became operational in May, 1970 and is already in the process of being expanded to 900,000 bbls. The transportation and other economies from an ultra-modern brewery on the doorstep of the richest market area in the country are obvious. Further expansion and improvements have also been carried out in Montreal, Saskatoon, Edmonton and New Westminster, and a new brewery is planned for Winnipeg.

In recent times, competition within the brewing industry has intensified, with the introduction by Canadian Breweries of a new ale, Heidelberg, in a distinctively shaped bottle in the Ontario market and the acquisition of Formosa Springs Brewery by Philip Morris, a powerful U.S. group. Only time will tell how successful these new entrants will prove to be, but we point to the Labatt record and conspicuous management ability as reasons for expecting it to weather the testing period that lies ahead. Perhaps indicative of Labatt's ability to hold its own are the results for the first half of the current fiscal year. This period saw the Company's brewing sales rise by 9% in volume terms compared with the industry's 5%, and its earnings from this source were higher by an estimated 12%.

On the all-important brewing side, then, the Labatt record compares outstandingly well and we do not see the progress and prowess of many years being readily undermined. Add to this the efforts to turn Lucky Breweries around, the prospects for Labatt's export operations in the northeast U.S.A. and the promising outlook for the wine companies, and we expect the beverage operations to continue contributing strongly to earnings in the years to come. If, as we believe is likely, the com-

pany's share of the Canadian market was to rise to the 36-37% level, sales could well average a 10% annual growth and, combined with the efficiencies and possibilities mentioned above, the growth in beverage earnings could exceed this rate as we see it.

FOOD OPERATIONS

The trend to diversity actually began several years ago with the entry into wines and fine chemicals. However, these were relatively small, even if useful, steps and it was not until the acquisition of The Ogilvie Flour Mills Company Limited early in 1968 that the diversification phase really gathered momentum.

A large and long-established entity in its own right, Ogilvie is Canada's largest flour miller and also has various foods subsidiaries, notably the Catelli companies and a major associate, McGavin Toastmaster Limited. Further acquisitions followed, including Manning's, Inc., an important United States westcoast food service group, and Laura Secord Candy Shops Limited the well-known confectionery chain. As a result, the foods side of Labatt now divides into two distinct groupings—Consumer Food Products and Industrial Products.

Behind the entry into foods lay the basic premise that the exceptional growth on the brewing side must eventually slow down and that the Labatt expertise in beverages could also be successfully applied to this other consumer facet. Clearly, beer and foods can complement one another in a variety of ways—as can wine and foods, foods and confectionery, and so on. In this light, the longer-term possibilities of a sales base, both increased and complemented, in excess of $200,000,000 annually could be immense, all the more considering the surge that is foreseen in consumer demand and spending over the 1970s.

While the potential is very real, time is going to be required to bring about the many remedial changes needed on the foods side of operations. Among the major acquisitions, Ogilvie and Laura Secord have fared indifferently for some years, while Manning's is probably in a break-even position at best. In addition, management changes have had to be made in certain of the companies and divisions acquired; for example, Catelli. Re-organization into divisions, management changes, delineation of the different functions within the whole group, the elimination of redundant and unviable assets, the tackling of major problems . . . these are all being attended to, even if the resultant benefits are not yet showing to the advantage of shareholders.

In the Consumer Food Products group, Laura Secord, the Catelli companies, Manning's and Parnell provide a solid base in processing, packaging and selling. While this group may appear to have only moderate potential, the Catelli companies, in particular, could offer considerable promise should the market penetration of their pastas, canned products and jar goods be increased. Similarly, the catering companies, Manning's and Parnell, could also be successfully geared to a growing market—even if food service remains a low-margin business, and there seems little reason why Laura Secord's reputation for extremely high quality products could not be used to advantage, once the basic diseconomies, with which it is hampered, are remedied.

On the Industrial Products side of the foods operation, the major portion of sales, perhaps as much as 40%, is derived from flour milling, traditionally also a slow-growth area. However, a positive factor is the rationalization that is taking place in the industry's production facilities, thus shrinking the amount of excess capacity.

Ogilvie's flour division is the largest and among the most efficient in Canada; in addition, a large proportion of its sales are to customers with whom there is a long association. Another important aspect is the degree of integration on the Industrial Products side. Thus, much of the animal feed, starch and chemical, and hatchery products are derived from the use of wheat and flour by-products; there are various other examples of integration beyond flour.

Viewing the foods side as a whole, then, we see aggregate sales growth in the order of 7-8% annually, with an attendant improvement in the composite profit margin to, say, the 3% level in due course. Thus, combined sales, totalling $177,000,000 in the latest year, could have passed well beyond the $200,000,000 level by fiscal 1972-73, and a 3% margin by then would mean an after-tax profit on sales in the order of $6,000,000. After the $3,000,000 dividend on the convertible preferred, and allowing for the food side's "negative pull" of some $500,000 in the latest year, this could add some $3,500,000 to common shareholder earnings over the next 2-3 years, or the equivalent of 40 cents per common share.

Even a slight improvement in the ultra low margins on the foods side would have a marked leverage effect on consolidated earnings. While time is needed, and these operations are again handicapping earnings in the current fiscal year, we would rate the chances of a "breakthrough" over the next few years as distinctly better than average.

OVER-ALL ASSESSMENT & CONCLUSION

A continued strong pattern on the brewing side, as well as a fruition of potential on the foods side of operations, would mean above-average earnings prospects for Labatt shareholders. Hence, while fiscal 1971 will likely prove a year of pause and consolidation in which growth slows to the order of 7%, we believe Labatt's common shareholder earnings to be capable of growing in the 12-15% range over the medium to longer term future. A management philosophy of sharing its prosperity, would then mean dividend expectations of a similar order.

LABATT RECORD OF PROGRESS 1960-70

(Fiscal year ending April 30)

	1970 (000)	Average Annual Growth 1960-70	1965-70	1969-70
Gross Sales				
—Total	$388,783	16.9%	29.4%	24.2%
—Beverages	211,402	10.9%	14.5%	17.2%
Net Available Common	12,845	12.6%	19.6%	24.4%
Common Dividend	5,314	12.7%	17.0%	6.0%
Earnings per Common Share	$1.45	12.3%	19.0%	21.8%
Dividends Per Share Currently Indicated	0.72	12.2%	16.7%	4.3%

ANALYSIS OF LABATT'S BREWING OPERATIONS IN CANADA

Fiscal Year Ending Apr. 30	Industry Sales	Labatt Sales	Share of Market	Labatt Capacity	Capacity Utilization	Labatt Sales
	(000 bbls.)	(000 bbls.)		(000 bbls.)		($000)
1960	9,396	1,450 Est.	17.6%	2,000	83%	74,145
1965	11,004	2,370	21.5%	2,800	85%	105,487
1966	11,200	2,517	22.5%	2,900	87%	112,365
1967	11,764	3,023	25.7%	3,400	89%	135,594
1968	12,265	3,382	27.6%	3,800	89%	156,484
1969	12,365	3,643	29.5%	3,800	96%	177,405
1970	13,100	4,190	32.0%	4,300*	97%	205,000 Est.
Average Annual Growth Rate						
1960-70	3.5%	10.0%		7.9%		10.6%
1965-70	3.5%	12.3%		9.2%		15.0%
1969-70	6.0%	15.0%		13.2%		16.7%

*excluding the new Metro Toronto brewery which was opened in the spring of 1970 and has raised capacity to the 4.7 million bbl. range.

ELF OIL EXPLORATION & PRODUCTION CANADA LTD.

In May 1970 Brascan signed an agreement to acquire a 15% equity interest in Elf Oil Exploration & Production Canada Ltd. ("Elf Canada"). Prior to November, 1969 Elf Canada was a wholly-owned subsidiary of Elf/ERAP.

The parent company, Elf/ERAP, is wholly owned by the government of France. It is a fully integrated oil group and is committed to a worldwide search for oil with affiliates in some 35 countries. Areas of activity include Latin America, Africa, Europe, the Middle East, the Far East and North America.

Elf Canada, formerly Petropar Canada Limited, has only nominal oil production but owns oil and gas rights in

approximately 89.3 million gross acres (22.6 million net). This acreage is located in the Arctic Islands, the Mackenzie Delta, the Beaufort Sea, Hudson Bay, East Coast Offshore and to a relatively small extent in British Columbia, Alberta and Saskatchewan. It is important to note that in the Arctic Islands, Mackenzie Delta and East Coast Offshore, Elf Canada was among the first companies to acquire land.

Elf Canada's largest land holdings are in the Arctic Islands which total 11.4 million net acres. A large acreage position was established here in 1960 and these holdings were increased between 1964 and 1969. A substantial portion of these holdings are in the western part of the Arctic Islands, on Banks, Prince Patrick, Mackenzie King and Borden Islands. A small portion of these Arctic Islands holdings, presumably that thought to be less attractive, has been farmed out to Panarctic Oils Limited. In the Anderson Plain area, just east of the Mackenzie Delta, Elf Canada holds 3.2 million net acres. A large portion of this acreage was acquired in 1964, prior to most land acquisitions in the area. The company also has substantial holdings in the Beaufort Sea located under relatively shallow water. In the East Coast Offshore area, Elf Canada acquired 2.8 million net acres in 1964, again prior to most other land filings in the area. This land is located offshore from Newfoundland.

In November, 1969 Canadian Industrial Gas and Oil Limited ("CIGOL") entered into an agreement with Elf Canada whereby CIGOL subscribed for a 10% equity interest in Elf. CIGOL is obliged to make cash payments of about $1,860,000 to acquire preferred shares of Elf and to incur drilling and exploration expenditures of about $21,400,000 to acquire 10% of Elf's common shares. CIGOL has the option of making cash payments in lieu of drilling and exploration expenditures. In partial recognition of the fact that drilling and exploration expenditures are tax deductible, each $1.15 incurred in drilling and exploration is equivalent under the agreement to $1.00 paid in cash. The parent company, Elf/ERAP has undertaken to make interest-free advances to Elf Canada of $9.00 for each $1.00 paid by CIGOL for Elf preferred shares or an aggregate of $16,740,000.

In May, 1970 Brascan signed an agreement to acquire a 15% equity interest in Elf Canada. Brascan is obliged to make payments of $40,000,000 Cdn. over a maximum period of five years. Subject to certain acceleration clauses in the event of commercial discoveries, 75% of these payments will be for exploration and drilling expenses and will be tax deductible for the Brascan Group. Brascan's interest in Elf Canada is held by a wholly-owned Canadian subsidiary Mikas Oil Co. Ltd. (purchased May, 1970), which itself is involved in oil exploration and production. Brascan, through Mikas, also purchased certain oil reserves of Pinnacle Petroleums Ltd. located in the Hamilton Lake area of east-central Alberta. The amount paid for Mikas and the Pinnacle properties was $6,500,000 Cdn.

Elf Canada's first exploration started in 1962 and has continued at an increasing pace. The company's first well was commenced in 1969 on the Anderson Plain acreage. It was abandoned at a depth of 8,130 feet. In April, 1970, the company's first well was drilled in the Arctic Islands on Mackenzie King Island. This well was abandoned in August at a depth of 9,744 feet. The company has commenced a second well on Mackenzie King Island, which is now drilling below 8,000 feet, with a projected depth of 11,000 feet. Elf Canada's five-year exploration budget, including exploration money to be spent by CIGOL and Brascan, will be approximately $65,000,000 Cdn. Elf Canada will be the operator of this program.

In summary, Brascan will acquire a 15% interest in a company whose major asset is exploration acreage of unknown potential in Canada's 'frontier' sedimentary basins. The Canadian Petroleum Association has estimated that the three 'frontier' areas in which Elf Canada has substantial land holdings have potential reserves of about 88 billion barrels. It is possible that the $65 million drilling program will not result in any commercial discoveries. On the other hand, if reserves totalling even a fraction of this figure are uncovered in these areas, and if exploration and production costs can be kept down to reasonable levels, then this investment could prove to be very rewarding for Brascan.

ELF Oil Exploration & Production Canada Ltd. Holdings

(BRASCAN, as a result of the agreement, will acquire 15% of the Common Shares of ELF.)

Areas in which ELF holds oil and gas rights

5. BRAZILIAN INVESTMENT PROGRAM

BANCO BRASCAN DE INVESTIMENTO S.A. (BANCO BRASCAN)

Banco Brascan is the chief financial operating company for the Brascan Group's investment program in Brazil. It is responsible for investing the Brascan Group's excess Brazilian funds in the short-term market, managing the investment portfolio of marketable and non-marketable securities, managing underwritings and performing other financial operations. It is felt that as the Brazilian financial markets develop, and this is occurring quite rapidly, Banco Brascan will have more opportunities to expand its operations.

Banco Brascan is managed by the same people as those in charge of the investment program. It has accounted for the larger part of the profits earned to date on non-utility investments in Brazil.

FÁBRICAS "PEIXE"

Fábricas "Peixe" (Peixe) is Brazil's second largest grower and processor of canned vegetables and fruits. This was originally a family owned concern which was taken over by the Brascan Group in mid-1969. At that time Peixe was in serious difficulty, due to lack of accounting controls and over-expansion.

In assessing Peixe, the developing market in Brazil for canned or convenience foods should be considered. The potential appears to be excellent in two respects:

(1) There is a rising demand for those convenience foods which are already available but in limited quantities. For example, prepared baby foods and canned soups are not widely available in Brazil, yet they have good prospects.

(2) In addition, there are many convenience foods common to North America which are not yet available in Brazil. These represent further opportunities.

In general, the food business in Brazil is not yet developed to the degree it is in North America. For example, supermarkets are only now experiencing great development. We visited several of these and were impressed with the cleanliness and efficiency. Therefore, against this background Peixe is in a good position to capitalize on many of the developing markets for canned and convenience foods in Brazil.

The Brascan Group's role in this operation is to provide the capital and the know-how in terms of the Brazilian economy. In order to provide the experience in the food processing industry, Peixe has entered into a management contract with the Heinz Company. Under this contract, Heinz will provide operating management and research for Peixe in return for a fee and an option on 49% of the Brascan Group's stock extending for a period of five years. This option is based on a formula which will take into account the worth of Peixe shares at the time the option is exercised. As shown elsewhere, at December 31, 1969 the Brascan Group had a 68% interest in this company at a cost of $3,900,000.

The first objective of the Brascan Group is to install a proper accounting and control system. This is nearly completed. Secondly, there is the program to launch new products. Finally, there is the possiblity of achieving important operating economies by irrigating the farming properties, thus giving them several growing seasons in the year rather than just one.

In terms of magnitude, it is estimated that Peixe's major competitor currently does about twice its volume and enjoys a profit of about $3,000,000 after taxes. Based on the growth of the market for processed foods and the intended new products, Peixe's sales volume could increase materially in the next few years.

In conclusion, looking beyond the problems of Peixe, this appears to be a business with worthwhile potential.

CELANESE DO BRASIL S.A. (CELANESE BRASIL)

The Brascan Group first took an interest in Celanese Brasil in 1967, before construction of the nylon "66" plant was started. The plant was completed by the end of 1968 and during 1969 the company ran at a loss. Celanese Brasil started to operate at a profit in mid-1970 and will earn about $300,000 for the year. For a new operation, starting from scratch, a break-even point within these time periods must be considered satisfactory.

The investment in this operation of approximately $10,000,000 was financed by Celanese Corporation, the Brascan Group and bank debt. The Brascan Group's investment of $3,100,000 represents a 45% interest.

FÁBRICA NACIONAL DE VAGÕES (FNV)

FNV is a well-established metal fabricator which is a supplier to the railways, the automobile, truck and a number of other industries. A brief description of these components is helpful in understanding its outlook.

FNV manufactures rolling stock for the Brazilian railways. Although this business has occasionally been erratic, the outlook is encouraging in that 40% of the rolling stock in Brazil was fabricated before 1940. The railways now appear intent on modernizing their systems. FNV is in a good position to benefit from this program because of its know-how, financial resources and general experience in the Brazilian economy.

The company also manufactures chassis frames, wheels, rims, transmissions and shafts for the Brazilian automotive industry. In North America, this would be considered a relatively unromantic industry, but as mentioned previously, automobile sales in Brazil have been increasing at 20% or more a year and the outlook is for continued rapid growth.

FNV is also a recognized manufacturer of steel frames for buildings and bridges as well as castings and machine parts for general use. Because the Brazilian economy is expanding at about 9% a year in real terms, the outlook for this segment of the business is buoyant. It should be pointed out that in some manufacturing processes, FNV has a unique capability and this gives it an edge which metal fabricators in North America do not generally enjoy.

FNV should have sales volume of about $15,000,000 in 1971 and a profit of approximately $1,000,000. It has demonstrated good profitability and growth in the past and the outlook is for continued good progress.

FNV is considered to be well managed from an operating point of view and it is believed the Brascan Group can make a significant contribution in the financial management area.

At present, the Brascan Group has a 22% interest in FNV at a cost of $2,600,000 and this is being increased to about 35%. The additional investment of $1,600,000 will be used to expand the plant capacity.

EUCATEX S.A.—INDÚSTRIA E COMÉRCIO (EUCATEX)

Eucatex is a manufacturer of acoustical tile and other forms of hardboard. It derives its technical know-how from a licencing arrangement from U.S. Plywood. Eucatex has shown worthwhile growth in real terms and has a good product and good facilities. The Brascan Group has an investment of $1,100,000 at cost in Eucatex and it receives an annual cash dividend of $50,000. The outlook for this investment is to be reviewed in the near future in order to assess its potential.

EMPRÊSA INDUSTRIAL GÁRCIA S.A. (GARCIA)

Garcia is a major manufacturer of terry towelling and linen goods. It has a sales volume of about $7,000,000 and earns a steady profit. The Brascan Group has an investment of $1,000,000 in this enterprise for which they received 22% of the equity. They receive an annual cash dividend of approximately $65,000 from Garcia.

At present, the Brascan Group is considering various plans, such as expansion or merger, so as to give this investment a greater potential.

FARLOC DO BRASIL S.A.—INDÚSTRIA E COMÉRCIO (FARLOC)

Farloc is a manufacturer of automobile brake components, such as master cylinders, repair kits and brake lubricants. It serves largely a replacement market with only a small portion going to original equipment.

Farloc's sales run about $3,000,000 a year and the company has a stable earnings record. It does not appear to be in a position to benefit from the rapid growth of the automotive industry in Brazil noted elsewhere. The Brascan Group has a 42% interest in this company for which it paid $500,000. Farloc has not yet paid dividends.

The Brascan Group is currently considering several plans to realize a greater potential from the investment in Farloc.

BANCO DE INVESTIMENTO DO BRASIL S.A. (BIB)

BIB is a financial intermediary type operation in which the Brascan Group made a $400,000 investment in 1967.

BIB accepts deposits and bills of exchange, makes short- and medium-term loans and has certain merchant banking type operations.

Its other shareholders consist of private bankers, mining interests, and other important financial groups.

BIB has shown good profit growth during the past few years and the outlook appears to be favourable. The Brascan Group's investment represents a minority position and it receives a dividend of $50,000 per year.

BRINK'S S.A.—TRANSPORTE DE VALÔRES (BRINK'S)

As its name suggests, Brink's provides armoured car transportation for bank cash, securities and other valuables. The business was started in 1967 and the Brascan Group invested $400,000 in return for a 49% interest.

Since its inception, this operation has grown from a sales volume of $200,000 in 1967, to over $1,000,000 in the current year. After having incurred losses in the first two years, it broke even last year and should earn a profit this year.

The growth of this business was assisted by regulations requiring that banks use armoured vehicles for the transportation of valuables. It is anticipated that Brink's will continue to demonstrate good growth in billings and profits.

In order to finance the expansion of its fleet of armoured vehicles, Brink's is planning an issue of convertible debentures. The Brascan Group will participate in this issue.

To date, the Brascan Group has not received any return on this investment. It is anticipated, however, that some return can be expected in the next year or so. In addition, the convertible debentures will pay interest.

6. TAX STATUS OF THE BRASCAN GROUP

The Brascan Group is taxed in two major jurisdictions, Canada and Brazil. In studying the tax status of these companies, it is helpful to refer to the organization structure shown on Page 6.

Brascan Limited, the top holding company is a federally incorporated company and is classified under present Canadian tax laws as a "taxable Canadian corporation". As such, it pays full Canadian corporate taxes on any taxable income. In turn, its Canadian shareholders are entitled to the 20% dividend credit. Until recently, Brascan Limited's tax status was that of a "foreign business corporation", which is amplified below. This was changed to the present status of a taxable Canadian corporation, as a result of the acquisition of its oil interests during 1970. In terms of taxes actually paid, Brascan did not pay significant Canadian taxes in the past because of its status as a "foreign business corporation". In spite of the change in status, no substantial tax liability is expected in 1970 or 1971 as the income from Brazil is free of tax under present law.

Brazilian Light Limited is a wholly-owned subsidiary of Brascan and is also a federally incorporated Canadian company. Under Section 71 of The Canadian Income Tax Act, it is classified as a "foreign business corporation". Broadly speaking, it qualifies for this tax status for a number of reasons including the fact that it does not actively carry on business in Canada, except for a few administrative and non-operative type functions. Because of this status, its annual Canadian income tax liability is nominal. Furthermore, dividends and interest on income bonds paid by it to Brascan are free of tax under Canadian tax law.

As also shown on the chart, John Labatt and Elf Canada are Canadian companies and for tax purposes are classified as "taxable Canadian companies" as described above in the case of Brascan.

LIGHT—Serviços de Eletricidade S.A. is the major operating utility and is a subsidiary of Brazilian Light Limited. LIGHT is a Brazilian company and as such pays taxes to the Brazilian government. Under Brazilian tax law, a utility is taxed at the rate of 17% on its corporate earnings, provided its profits do not exceed 12% of its recognized rate base. LIGHT meets this requirement, so it enjoys the 17% rate. It also pays a tax of 5% on gross dividends declared. There is also a withholding tax on dividends. If these dividends are paid for the account of non-residents, the withholding rate is 25%. This rate applies to dividends retained in Brazil or remitted abroad, provided that in the latter case certain limits are adhered to. If not, the rate exceeds 25%. LIGHT meets these requirements so its withholding rate has not exceeded 25%.

Brazilian corporations other than utilities pay a corporate tax rate of 30%. There are, however, significant incentives for corporations and individuals who are prepared to invest capital in the equities of Brazilian enterprises. For example, a corporation can reduce its tax liability by as much as 50% by investing the amount otherwise owing as a tax liability to the government in certain designated areas of endeavour. There are also other incentives such as tax holidays, if businesses establish their operations in certain areas and certain fields of activity. Consequently, in a number of cases, a corporation's tax liability will be materially below the 30% level. These and similar incentives contributed to the strong Brazilian stock market since 1968, commented on elsewhere. It is also of interest to note that in Brazil, individuals are not taxed on their capital gains.

Looking to the future, the White Paper Proposals on Canadian tax reform might have an adverse impact upon the Brascan Group. These are difficult to spell out precisely, because on a number of points, the White Paper itself is not clear and because even the fate of the White Paper Proposals is uncertain. Nevertheless, if the White Paper Proposals were enacted in their present form, they might have several adverse results. The Brascan Group might have to bear a heavier tax burden which could reduce the funds available for its Canadian investment program. Secondly, the net after-tax return to Canadian dividend recipients would probably be reduced, although it is difficult to estimate the amount of such reduction. It should be pointed out, however, that until this year, Canadian shareholders of Brascan did not enjoy the 20% dividend credit. Finally, there is the fact that the Proposals, if implemented, would tend to reduce Brascan's earnings. All of these factors would tend to reduce the value of Brascan's shares. On the other hand, it should be remembered that the White Paper contains proposals only and since some of these proposals could have an unduly harsh effect, particularly in the international area where Brascan is concerned, there is the possibility they will be modified. In any event, their effect would not be immediate, even if implemented, but would probably provide a phasing-in period of several years.

It is interesting to compare the Brazilian tax system with the proposed Canadian system. Both countries have the objective of greater domestic ownership of industry. As can be seen from the above comments, there is considerable encouragement given to Brazilians who invest in Brazil. Also Brazil has had for a number of years a top rate of personal income tax of 50%. Nevertheless, due to other taxes such as a heavy sales tax on non-essentials, the public sector has available for social expenditures a meaningful proportion of the gross national product. In short, the Brazilian tax structure gives strong incentives to those prepared to work, save and invest in Brazil and yet allows the government a large share of the gross national product for social expenditures.

7. BRASCAN LIMITED—CONSOLIDATED FINANCIAL STATEMENTS, 1965-69

INCOME STATEMENT

(000's)

	1965(1)	1966	1967	1968	1969
OPERATING REVENUES:					
Electric	$165,075	$218,941	$249,531	$257,612	$302,802
Gas	18,425	19,442	18,344	12,812	4,886
	$183,500	$238,383	$267,875	$270,424	$307,688
OPERATING REVENUE DEDUCTIONS:					
Operating Expenses	$102,210	$130,954	$148,483	$155,193	$188,218
Income Taxes (including withholding taxes)	12,176	19,143	23,021	21,968	22,852
Depreciation	27,121	32,414	20,378	21,426	22,589
Reversion	13,896	15,978	18,128	17,854	19,636
	$155,403	$198,489	$210,010	$216,441	$253,295
OPERATING INCOME	$ 28,097	$ 39,894	$ 57,865	$ 53,983	$ 54,393
OTHER INCOME:					
Interest under Telephone Sale Agreement	—	$ 5,552	$ 5,149	$ 4,772	$ 4,567
Investment Income	$ 2,761	5,204	6,015	9,254	12,728
Miscellaneous (net)	347	32	(383)	502	304
	$ 3,108	$ 10,788	$ 10,781	$ 14,528	$ 17,599
NET INCOME BEFORE INCOME DEDUCTIONS	$ 31,205	$ 50,682	$ 68,646	$ 68,511	$ 71,992
INCOME DEDUCTIONS:					
Interest on Long-Term Debt	$ 4,441	$ 3,985	$ 4,102	$ 4,173	$ 4,065
Interest Charged to Construction—credit	(40)	(986)	(1,869)	(1,594)	(2,529)
Reversion Interest	—	921	1,723	2,948	3,947
Foreign Exchange Adjustments	4,460	2,965	5,219	3	(2,731)
Equity of Minority Shareholders	1,920	4,533	7,900	7,428	9,180
Net Loss of Telephone Utility (1)	944	—	—	—	—
	$ 11,725	$ 11,418	$ 17,075	$ 12,958	$ 11,932
NET INCOME FOR THE YEAR BEFORE EXTRAORDINARY ITEMS	$ 19,480	$ 39,264	$ 51,571	$ 55,553	$ 60,060
Extraordinary Items—Credit (Debit)		(2,885)		3,632	
NET INCOME	19,480	36,379	51,571	59,185	60,060
AVERAGE SHARES OUTSTANDING DURING YEAR (000) (2)	22,829	22,842	23,039	23,188	23,265
NET INCOME PER SHARE BEFORE EXTRAORDINARY ITEMS(2)	$ 0.85	$ 1.72	$ 2.24	$ 2.40	$ 2.58

(1) As reported at December 31, 1965, adjusted to group together as one item all income and expense of the telephone utility. The book loss on sale of that utility was charged to consolidated retained earnings in 1965. In accordance with current accounting practice this loss of $18,815,000 would be classified as an extraordinary item.

(2) Average number of outstanding ordinary shares during year, adjusted for stock dividends in June 1969 and January 1971.

BALANCE SHEET
(000's)

ASSETS

	1965*	1966	1967	1968	1969
FIXED ASSETS:					
Total Property, Plant and Equipment at Cost	$ 790,711	$828,131	$871,877	$931,855	$989,071
Less: Accumulated Depreciation and Amortization	293,945	322,180	332,678	344,361	343,132
	$ 496,766	$505,951	$539,199	$587,494	$645,939
INVESTMENTS AND OTHER ASSETS:					
Receivable on Sale of Telephone Utility	$ 90,143	$ 83,600	$ 78,845	$ 76,051	$ 73,089
Other Investments at Cost (less amount written-off)	6,200	17,002	43,551	51,136	56,398
Securities and Cash on Deposit, Sundry Assets and Deferrals	16,607	17,580	30,006	24,947	18,625
	$ 112,950	$118,182	$152,402	$152,134	$148,112
CURRENT ASSETS	$ 101,229	$131,812	$155,453	$164,131	$191,198
TOTAL	$ 710,945	$755,945	$847,054	$903,759	$985,249

LIABILITIES

	1965*	1966	1967	1968	1969
SHAREHOLDERS' EQUITY:					
6% Preference Shares	$ 393	$ 393	$ 393	$ 297	$ 134
Ordinary Shares	184,522	184,788	186,015	186,794	190,860
Retained Earnings	315,150	337,049	372,068	413,675	445,557
	$ 500,065	$522,230	$558,476	$600,766	$636,551
Minority Interest	$ 30,835	$ 34,405	$ 42,426	$ 46,683	$ 62,926
Contributions in Aid of Construction	21,444	23,553	26,486	30,912	31,443
Accumulated Reversion	13,929	30,830	50,688	71,490	95,072
Long-Term Debt	74,943	71,951	72,787	70,953	66,922
Other	8,306	9,432	12,936	11,070	6,054
CURRENT LIABILITIES	61,423	63,544	83,255	71,885	86,281
TOTAL	$ 710,945	$755,945	$847,054	$903,759	$985,249

* As reported at December 31, 1965 adjusted to reflect the sale of the telephone utility. The sale price realized (including $6,172,000 in current assets) has been substituted for the assets less the liabilities of that utility.

SOURCE & APPLICATION OF FUNDS STATEMENT

(000's)

FUNDS PROVIDED:	1965	1966	1967	1968	1969
Funds provided from operations:					
Net Income for Year	$ 19,480	$ 36,379	$ 51,571	$ 59,185	$ 60,060
Add (deduct):					
Depreciation	$ 27,121	$ 32,414	$ 20,377	$ 21,426	$ 22,589
Reversion	13,896	15,979	18,128	17,854	19,636
Interest Charged to Construction—credit				(1,594)	(2,530)
Reversion Interest		921	1,723	2,948	3,947
Equity of Minority Shareholders	1,920	4,533	7,900	7,428	9,180
	$ 62,417	$ 90,226	$ 99,699	$107,247	$112,882
Current Portion on Sale Price of Telephone Utility	$ 6,173	$ 6,543	$ 4,755	$ 2,795	$ 2,962
Customers' Contributions in Aid of Construction	2,384	2,109	2,934	4,425	2,710
Long-Term Borrowings	18	10,950	12,565	10,849	6,351
Share Capital Issued		266	1,227	683	379
Increased Holdings of Minority in Subsidiary					11,628
Other		1,126	5,912	976	163
	$ 70,992	$111,220	$127,092	$126,975	$137,075
FUNDS USED:					
Dividends—preference shares	$ 22	$ 22	$ 22	$ 18	$ 10
—ordinary shares	7,230	14,458	16,530	17,560	24,644
Subsidiary Dividend Paid to Minority Shareholders	145	1,045	2,348	3,818	3,686
Capital Expenditures	17,897	43,020	59,613	70,209	75,074
Reduction in Long-Term Debt	11,412	13,942	11,730	12,683	10,382
Increase in Other Investments		10,802	26,549	7,585	5,263
Other	1,956	(531)	1,613	2,021	3,137
Increase in Working Capital	32,330	28,462	8,687	13,081	14,879
	$ 70,992	$111,220	$127,092	$126,975	$137,075

Note:—The funds flow statements for each year except 1969 were recorded from comparative year figures in the annual reports. As there were slight changes in the funds flow accounting practices between successive years, exact comparisons of the cash flow position are not possible.

8. BRASCAN LIMITED— DISTRIBUTION OF ORDINARY SHARES

at December 31, 1970

	No. of Shares (000)	% of Total	No. of Shareholders
Canada	7,831	34	14,528
United States	11,873	51	19,505
U.K. and Eire	619	3	495
Brazil	82	—	44
Other Countries	96	—	212
Total Registered Shares	20,501	88	34,784
Bearer Share Warrants and Fractions*	2,788	12	
Total Ordinary Shares Outstanding	23,289	100.00	

*Including the fractional parts of shares resulting from stock dividends which have not been converted into whole shares.

9. BRASCAN LIMITED— BOARD OF DIRECTORS

HERMANN J. ABS
Chairman, Deutsche Bank Ag. - Frankfurt on Main

J. H. A'COURT*
VICE-PRESIDENT, FINANCE - Toronto

PIERRE ANSIAUX
Member of the Bar of the Supreme Court of Belgium - Brussels

A. T. A. ANTUNES
President, Indústria e Comércio de Minérios S.A. Rio de Janeiro

THIERRY BARBEY
Managing Partner, Lombard, Odier & Cie - Geneva

HENRY BORDEN*
Chairman, British Newfoundland Corporation Limited - Toronto

PAUL G. DESMARAIS
Chairman, Power Corporation of Canada, Limited - Montreal

JOHN F. GALLAGHER
Vice-President, International Operations, Sears-Roebuck and Co. - Chicago

ANTONIO GALLOTTI
VICE-PRESIDENT; President, LIGHT—Serviços de Eletricidade S.A. - Rio de Janeiro

J. PETER GRACE
President, W. R. Grace & Co. - New York

LEWIS B. HARDER*
Chairman, International Mining Corporation - New York

N. E. HARDY
President, John Labatt Limited - London, Canada

W. C. HARRIS*
Chairman, Harris & Partners Limited - Toronto

LOUIS A. LAPOINTE
Chairman and President, Miron Company Ltd. - Montreal

A. J. MACINTOSH
Partner, Blake, Cassels & Graydon - Toronto

PAUL E. MANHEIM*
Partner, Lehman Brothers - New York

WILLIAM J. MANNING
Partner, Simpson Thacher & Bartlett - New York

BEVERLEY MATTHEWS*
Partner, McCarthy & McCarthy - Toronto

NEIL J. McKINNON*
Chairman, Canadian Imperial Bank of Commerce - Toronto

L. G. MEESE
President, The Detroit Edison Company - Troy, U.S.A.

J. H. MOORE
PRESIDENT - London, Canada

JOHN G. PHILLIMORE
Managing Director, Baring Brothers & Co. Limited - London

W. A. G. KELLEY
Honorary Director - Toronto

*Member of the Executive Committee.

[NAME CHANGED IN MAY 1971 TO WOOD GUNDY LTD]

WOOD GUNDY SECURITIES LIMITED

HEAD OFFICE:

Royal Trust Tower,
P.O. Box 274, Toronto-Dominion Centre,
Toronto 111, Canada,
416-362-4433

Other Offices:

Montreal	New York	London, England
Vancouver	Winnipeg	Ottawa
Calgary	Halifax	Edmonton
Hamilton	London	Quebec City
St. John	Regina	Saskatoon
Kitchener	Victoria	Barrie
Kingston	Peterborough	Oshawa

Member:
Investment Dealers' Association of Canada

The Toronto Stock Exchange
Montreal Stock Exchange
Canadian Stock Exchange
Vancouver Stock Exchange
Winnipeg Stock Exchange

WOOD, GUNDY & CO., INC.
New York
100 Wall Street,
New York, N.Y.,
10005,
212-344-0633

Member:
Midwest Stock Exchange

Wood, Gundy (International) Limited
Toronto, Canada

Board of Directors

W. P. Scott, Honorary Chairman — C. L. Gundy, Chairman
W. P. Wilder, President

Vice-Presidents

J. N. Cole   P. J. Chadsey   J. R. LeMesurier   C. E. Medland
J. N. Abell   D. C. H. Stanley   I. S. Steers   R. T. Morgan

R. M. Hanbury   A. D. Falkner   J. L. McAlpine   G. S. Swindell
J. M. G. Scott   R. E. Beale   J. A. Black   N. F. Elsey
G. E. King   R. D. Thompson   I. C. Woolley

BRAZILIAN TRACTION, LIGHT AND POWER COMPANY, LIMITED.

NOTICE.

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Shareholders of BRAZILIAN TRACTION, LIGHT AND POWER COMPANY, LIMITED, will be held at the Toronto Railway Chambers, in the City of Toronto, Canada, on Friday, the 3rd day of July, 1914, at the hour of 12 o'clock noon, to receive the Report of the Directors for the period from the incorporation of the Company to December 31st, 1913, for the election of Directors for the ensuing year and the transaction of such other business as may be transacted at a General Meeting.

Should you be unable to attend the Meeting in person, kindly sign the enclosed proxy, returning same to this Office at your earliest convenience.

BY ORDER of the Board,

J. M. SMITH,
Secretary.

TORONTO,
28th May, 1914.

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NOTES

Earnings

Under Brazil's "service at cost" system, the Company's allowable operating revenues from its electric utility service are based on the recovery of allowable costs, plus a return on the rate base. These can only be determined annually, after the end of the year, and as a result, for any interim period, can only be estimated. Any revenue which exceeds allowable levels is excluded from income, as it is available only for the purpose of meeting deficiencies of earnings, or establishing rates in subsequent years. However, any deficiencies of earnings are only recoverable from future rates, and are taken into income when received.

Currency

Currency figures are expressed in United States dollars. The Company's procedures for translating revenue and expense items from cruzeiros into dollars are based on exchange rates which closely approximate average free market rates of exchange for the period under review. Because the cruzeiro/dollar rate changes periodically under the system of moving exchange rates, dollar equivalents of cruzeiro items in the Company's interim statements vary from period to period within a year.

In the current statement, cruzeiros were translated at Cr$5.10 to the dollar vs. Cr$4.46 a year ago.

Estimates

Because of the variables and adjustments noted above, the Company's operating revenues for any interim period can only be estimated.

Comparative Figures

The 1970 figures have been reclassified to conform with the 1971 presentation, and 1970 net income per ordinary share has been adjusted for the stock dividend paid January 29, 1971.

Brascan
LIMITED

INTERIM REPORT TO THE SHAREHOLDERS

six months ended June 30, 1971

Brascan
LIMITED

TO THE SHAREHOLDERS

Estimated consolidated net income for the six months ended June 30, 1971 was $41.4 million ($1.78 per ordinary share), an increase of 18.6% over the $34.9 million ($1.50 per ordinary share) earned in the same period in 1970.

During the first six months of 1971, favourable economic trends in the Brazilian economy in 1970 continued. The rate of increase in industrial output exceeded the 10% reported in first-half 1970, while the growth of the money supply was slowed down. The rate of inflation was slightly greater than in the previous year but it is anticipated that by the end of the year this trend will have been reversed. Exports increased at a lower rate than in 1970, principally because of a drop in coffee exports.

Accompanying the surge in industrial production, electric sales of Light S.A. increased by 14% to 9,933 million kwh. Despite this, operating revenues fell short of the cost of service in first-half 1971, due to increases in purchased power and steam generation, necessitated by anticipated shortages in water storages in the integrated South-Central region of Brazil. These cost increases were reflected in the adjusted electric rates made effective on June 1, 1971 and the shortfall in first-half 1971 electric earnings will be fully recovered over the remainder of the year. Earnings of first-half 1970 not only covered the full cost of service for that period but also included substantial recoveries of the deficiency suffered in 1969. In consequence, electric operating income in first-half 1971 would have been only marginally in excess of that of the previous year, had there been no change in the tax position of Light.

As explained to shareholders at the Annual Meeting held on June 1 last, the rate of income tax payable by electric utilities in Brazil will be reduced for a period of four years commencing January 1, 1972, from 17% to 6% of taxable profits, but such taxes will no longer be recoverable in electric rates. This change in the regulatory system, coupled with the fact that income taxes are paid in the year following that in which the income is earned, results in the recovery in 1971 operating revenues of taxes on 1970 income which are being paid during the current year at the 17% rate. Meantime, income tax on 1971 income is being provided for at the new rate of 6%. Such tax will be paid in 1972 but will not be recoverable in operating revenues. Approximately $5.4 million of the $6.8 million improvement in electric operating income reflected in the attached comparative Income Account is attributable to these tax changes.

In addition to the tax aspects, the change in the electric regulatory system which is to take effect on January 1, 1972 empowers the conceding authority to increase the maximum allowable rate of remuneration from 10% to 12% of the rate base. It also provides for an increase from 6% to 10% in the rate of interest payable on reversion moneys collected in rates and invested in electric plant up to December 31, 1971. Finally, it establishes that reversion funds collected in rates after December 31, 1971 will be placed in a pool which will be administered by Eletrobrás, the federal power agency, to help finance electric utility expansion in Brazil. As indicated at the Annual Meeting last June, these

changes are not expected to affect adversely the earnings of Light.

Expenditures and commitments incurred to June 30, 1971 against the authorized 1971 capital budget for expansion and improvement of the electric service amounted to $64 million.

Net investment income increased by $4.7 million, chiefly as a result of increased earnings in the Brazilian investment subsidiaries. The principal component of these earnings in first-half 1971 was profit on security trading realized by the Company's investment banking subsidiary. The stock markets in Rio and São Paulo are now less buoyant and it is anticipated that trading profits in the second half will be less than those of the first half.

Other than payment of the second instalment of the Company's purchase of shares in Elf Oil Exploration and Production Canada Limited of Can. $8 million through Mikas Oil Co. Ltd., no substantial non-utility investments were made in the first half of 1971.

In August 1971 the Company, through Mikas Oil Co. Ltd., entered into agreements with Brameda Resources Ltd., Teck Corporation and Coalition Mining Limited for the development of the Sukunka coal deposit near Chetwynd, B.C. The coal in this deposit is considered to be of high coking quality. Under the agreement, Mikas will earn a 7½% interest in the project in return for the expenditure of approximately Can. $1.5 million on exploration.

In addition, Mikas will have an option to purchase an additional 37½% interest in the coal project for Can. $7.5 million. Exercise of this option will obligate Mikas to arrange the necessary financing for the project, which would be carried out under the direction of Mikas. If the project is proceeded with, it is anticipated that the operations and sales would be managed by Coalition, a private company whose shareholders are Mikas, Austen and Butta Ltd. (Australian coal operators) and Intercontinental Fuels Ltd. (a U.K. coal company with worldwide expertise in the marketing of coal).

In July 1971, the Company's investment banking subsidiary in Brazil, Banco Brascan, acquired for approximately $1.0 million, a majority interest in a consumer finance company, Crefinan, to further expand its financial service activities.

Foreign exchange adjustments shown in the income statement reflect a loss of $1.1 million in 1971 compared with a profit of $1.6 million in the corresponding period in 1970. This loss arises primarily from the translation of the increased cruzeiro working capital to dollars and the continuing devaluation of the cruzeiro under the system of moving exchange rates.

Two dividends, amounting to $11.6 million, were declared during the first half on the increased number of shares resulting from the 10% stock dividend paid on January 29, 1971. The dividends were paid at the regular quarterly rate of 25 cents per ordinary share.

New tax legislation, to be effective in 1972, is before the Canadian Parliament and although present indications are that it will not have a material effect on the Company's earnings, no definitive judgment can be made until the legislation is enacted.

September 7, 1971

J. H. Moore
President

Statement of Estimated Consolidated Income*

FOR THE SIX MONTHS ENDED JUNE 30
Expressed in Thousands of U.S. Dollars

(Unaudited)

	1971	1970
ELECTRIC UTILITY INCOME		
Operating revenues	**$206,974**	$176,002
Operating revenue deductions:		
Purchased power	**72,891**	58,830
Fuel oil	**4,174**	1,441
Salaries, wages, and other operating expenses	**48,967**	42,468
Depreciation	**12,912**	11,805
Reversion	**15,369**	11,107
Income and withholding taxes	**9,160**	13,641
	163,473	139,292
Operating income	**43,501**	36,710
Income deductions:		
Interest on long-term debt	**1,714**	1,988
Interest charged to construction—credit	**(1,634)**	(1,977)
Reversion interest	**3,694**	2,681
Equity of minority shareholders	**6,935**	5,939
	10,709	8,631
Net electric utility income	**32,792**	28,079
INVESTMENT INCOME		
North America		
Dividends	**2,133**	1,009
Interest income	**1,019**	2,025
	3,152	3,034
Brazil		
Interest under telephone sale agreement	**2,111**	2,200
Income on short-term investments	**1,422**	1,132
Net income of investment subsidiaries after deducting income and withholding taxes (1971—$1,843; 1970—$566)	**5,316**	(101)
Provision for loss of unconsolidated subsidiary	**(1,000)**	
	7,849	3,231
Net investment income	**11,001**	6,265
OTHER (CHARGES) LESS CREDITS		
Foreign exchange adjustments	**(1,085)**	1,597
General corporate expenses	**(1,147)**	(905)
Miscellaneous (net)	**(177)**	(128)
	(2,409)	564
NET INCOME FOR PERIOD	**$ 41,384**	$ 34,908
NET INCOME PER ORDINARY SHARE	**$ 1.78**	$ 1.50

*See Notes

Statement of Estimated Consolidated Source and Application of Funds*

FOR THE SIX MONTHS ENDED JUNE 30
Expressed in Thousands of U.S. Dollars

(Unaudited)

	1971	1970
FUNDS PROVIDED		
Funds provided from operations:		
Net income for period	**$ 41,384**	$ 34,908
Add (Deduct):		
Depreciation	**12,912**	11,805
Reversion	**15,369**	11,107
Interest charged to construction—credit	**(1,634)**	(1,977)
Reversion interest	**3,694**	2,681
Equity of minority shareholders	**6,935**	5,939
	78,660	64,463
Current portion of sale price of telephone utilities	**1,640**	1,547
Customers' contributions in aid of construction	**1,013**	1,016
Long-term borrowings	**437**	132
Increase in holdings of minority shareholders in electric subsidiary's capital	**722**	788
Miscellaneous changes in various assets and liabilities	**2,362**	1,230
Decrease in working capital		27,974
	84,834	97,150
FUNDS USED		
Capital expenditures—electric utility	**35,373**	39,259
Reduction in long-term debt	**5,363**	5,164
Increase in non-utility investments	**8,042**	33,471
Increase in materials and supplies—electric utility	**894**	3,238
Subsidiary dividends paid to minority shareholders	**2,925**	5,445
Dividends—preference	**4**	4
—ordinary	**11,606**	10,569
Increase in working capital	**20,627**	
	$ 84,834	$ 97,150

*See Notes

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